

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR
(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended: December 31, 2000

1-14970

(Commission file number)

ENEL-Società per Azioni

(Exact name of registrant as specified in its charter)

ENEL S.p.A.

(Translation of registrant's name into English)

Italy

(Jurisdiction of incorporation or organization)

Viale Regina Margherita 137

Rome, Italy

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange
on which registered

American Depositary Shares

Ordinary shares with a par value of 1,000 Italian Lire each*

New York Stock Exchange

New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

12,126,150,379 Ordinary Shares*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐

Item 18 ☒

* Following the re-denomination of our share capital in Euro, effective July 9, 2001, starting from that date, our share capital will consist of 6,063,075,189 shares, each with a par value of €1.

** Not for trading, but only in connection with the registration of the American Depositary Shares.

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SIGNATURES

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless we indicate otherwise, the financial information contained in this annual report is prepared in accordance with Italian GAAP, which are the accounting principles prescribed by Italian law and supplemented by the accounting principles issued by the National Boards of Dottori Commercialisti and of Ragionieri (National Board of Chartered Accountants) and, to the extent such requirements or principles are silent on particular issues and not at variance, by those standards laid down by the International Accounting Standards Committee (I.A.S.C.). These principles are described in note 2 to our consolidated financial statements included in this annual report. These principles differ in certain respects from generally accepted accounting principles in the United States or U.S. GAAP. We describe these differences in note 24 to our consolidated financial statements. Unless indicated otherwise, any reference in this annual report to our consolidated financial statements is to the consolidated financial statements (including the notes to the consolidated financial statements) included in this annual report.

We publish our consolidated financial statements in Italian lire. In this annual report, unless we specify otherwise or the context otherwise requires:

- References to “dollars,” “\$” and “U.S. dollars” are to United States dollars;
- References to “lire,” “lira” or “Lit.” are to Italian lire; and
- References to “€” or “Euro” are to the Euro, the single currency established for participants in the third stage of the European Economic and Monetary Union, or EMU, commencing January 1, 1999. The Republic of Italy is a participant in EMU. The Euro replaced the Italian lira as the official currency of Italy on that date and until the implementation of the next stage of the EMU, which is expected to occur in 2002, the lira will continue to exist solely as a subdivision of the Euro. The lira will cease to exist at the implementation of the next stage of EMU.

For convenience only and except where we specify otherwise, we have translated certain lire figures into dollars at the rate of Lit. 2,062.49 = \$1.00 and into Euro at the fixed exchange rate between the lira and the Euro of Lit. 1,936.27 = €1.00 as established by the European Council of Ministers on December 31, 1998. The rate of exchange between lire and dollars represents the lire equivalent (at the fixed lira/Euro rate) of \$0.9388 = €1.00, the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the “noon buying rate”) on December 29, 2000, the last business day immediately preceding December 31, 2000, the date of the most recent balance sheet included in this annual report. To obtain a current formulation of the value of Italian lire amounts in dollars, you must first convert lire into Euro at the fixed lira/Euro conversion rate of Lit. 1,936.27 = €1.00, and then convert the resulting Euro amount into dollars at the prevailing rate of exchange. By including convenience currency translations in this annual report, we are not representing that the lira amounts actually represent the dollar amounts shown or could be converted into dollars at the rates indicated. On June 27, 2001, the noon buying rate for Euro was \$0.8621 = €1.00 and the effective noon buying rate for lire was Lit. 2,246.07 = \$1.00. For information about the rate of exchange between the lira and dollar for periods from 1995 through June 15, 2001 and between the dollar and the Euro since January 1, 1999, you should read “Item 3. Key Information—Exchange Rates.”

In this annual report, “Enel” and the “Company” refer to ENEL S.p.A. and the terms “Enel Group,” “Group,” “we,” “us” and “our” refer to ENEL S.p.A., together with its consolidated subsidiaries. All references to “Italy” or the “State” are to the Republic of Italy. All references to the “Treasury Ministry” or the “Treasury” are to the Ministry of Economy and Finance and its predecessor, the Ministry of the Treasury, Budget and Economic Planning of the Republic of Italy. All references to the “Industry Ministry” are to the Ministry of Productive Activities and its predecessor, the Ministry of Industry, Commerce and Handcrafts of the Republic of Italy, all

references to the “Environment Ministry” are to the Ministry of the Environment of the Republic of Italy, all references to the “Energy Authority” are to the Authority for Electric Energy and Gas of the Republic of Italy, all references to the “Communications Authority” are to the Authority for the Guarantee of Communications of the Republic of Italy, and all references to the “Antitrust Authority” are to the Antitrust Authority of the Republic of Italy.

We use a number of terms related to the electricity industry in this annual report. We have explained some of these terms in the following “Glossary of Selected Electricity Terms” included in this annual report. This glossary may assist you in understanding these terms.

Glossary of Selected Electricity Terms

The following explanations are not technical definitions, but they should assist you in understanding some of the terms used in this document.

Average thermal efficiency.....	A measure of the efficiency of a thermal generating plant in converting sources of energy such as fuel oil into electricity. Average thermal efficiency is expressed as the amount of electricity actually produced in kWh as a percentage of the kWh equivalent of the energy source consumed.
Combined Cycle Gas Turbine	A type of generating plant that produces electricity through both gas turbines and steam turbines. Conventional boilers or other generators recover and use the heat exiting from gas turbines.
Co-generation	The simultaneous generation of steam and electricity, typically where the need arises for industrial purposes.
Generating unit	An electric generator together with the turbine or other device which drives it.
Gigawatt (GW).....	1,000,000,000 watts (1,000 megawatts).
Gigawatt hour (GWh)	One gigawatt of power supplied or demanded for one hour.
Installed capacity	The maximum power which could be produced continuously throughout a prolonged period of operation. All equipment is assumed to be fully operational.
Kilovolt (kV)	1,000 volts.
Kilovolt ampere (kVA).....	1,000 volts ampere.
Kilowatt (kW).....	1,000 watts.
Kilowatt hour (kWh).....	One kilowatt of power supplied or demanded for one hour.
Megawatt (MW)	1,000,000 watts (1,000 kilowatts).
Megawatt hour (MWh).....	One megawatt of power supplied or demanded for one hour.
Megavolt ampere (MVA).....	1,000,000 volts ampere.
NO _x	Oxides of nitrogen.
Orimulsion	Abbreviation of “Orinoco emulsion”, which is a fossil fuel from the Orinoco river basin in Venezuela consisting of very fine bitumen dispersed in water. Orimulsion emits the same amount of CO ₂ as fuel

	oil of equivalent energy value.
SO ₂	Sulfur dioxide.
Substation	Equipment which switches and/or changes or regulates the voltage of electricity in a transmission and distribution system.
Terawatt (TW).....	1,000,000,000,000 watts (1,000 gigawatts).
Terawatthour (TWh).....	One terawatt of power supplied or demanded for one hour.
Thermal unit	A generating unit which uses combustible fuel as the source of energy to drive an electric generator.
Volt.....	The basic unit of electric force analogous to water pressure in pounds per square inch.
Voltampere	The basic unit of apparent electrical power.
Watt	The basic unit of active electrical power.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

THE ENEL GROUP

We are the principal electricity company in Italy, with the leading position in the generation, transmission, distribution and supply of electricity. Our net electricity production in 2000 was 182.5 Terawatts (TWh), having increased by 2.1% from 1999. Based on data provided by the *Gestore della Rete*, the governmental entity that manages the national transmission grid, we estimate that this production represented 69.6% of Italian production during 2000. According to Bloomberg, in the year 2000, measured by the amount of electricity sold, we were the third-largest electric utility in the 29 member states of the Organization for Economic Co-operation and Development and, based on market capitalization, we were the largest publicly traded electric utility in Europe. Based on revenues, we are one of the largest industrial companies in Italy, with operating revenues of Lit. 48,618 billion, or approximately \$24 billion, in 2000. We earned net income of Lit. 4,236 billion, or \$2.1 billion, in 2000.

The Republic of Italy, through the Treasury Ministry, currently owns approximately 68% of our shares, having sold approximately 32% of our shares in our initial public offering in 1999 as part of the privatization and liberalization of the Italian electricity market. Our current senior management team has focused on preparing us for a liberalized market by restructuring our operations, improving efficiency, diversifying operations, creating a more customer-oriented organization and seeking to maximize shareholder value. We have also established our rapidly growing telecommunications operations as one of our core businesses. Our strategy to diversify our operations further is based on cross-selling to our base of almost 30 million Italian electricity customers and exploiting the value of our existing assets and experience in order to establish ourselves as a multi-utility provider.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data together with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and notes thereto included elsewhere in this annual report.

Our consolidated financial statements and the notes thereto included herein have been prepared in accordance with Italian GAAP, which standards differ in certain important respects from U.S. GAAP. For an explanation and quantification of such differences, see notes 24 and 25 to our consolidated financial statements included herein.

Our telecommunications operations consist of WIND, our joint venture with France Telecom, and Infostrada S.p.A. (“Infostrada”), which we acquired in March, 2001. In 2000, we did not consolidate WIND’s results of operations under Italian GAAP, as we accounted for WIND on the equity method. For U.S. GAAP purposes only, we have consolidated WIND’s results beginning in August 2000. Moreover,

as we acquired Infostrada in March 2001, the financial and other information presented below does not include any data relating to Infostrada.

	1996	1997	1998	1999	2000	2000(1)	2000(2)
						(Euro in millions, except per share amounts)	(dollars in millions, except per share amounts)
(lire in billions, except per share amounts)							
Consolidated Statement of Income Data							
<i>Amounts in accordance with Italian GAAP:</i>							
Operating revenues.....	Lit. 38,664	Lit. 39,617	Lit. 39,788	Lit. 40,584	Lit. 48,618	€ 25,109	\$ 23,572
Operating expenses:							
Depreciation and amortization	5,604	5,695	6,036	6,201	6,697	3,459	3,247
Other	24,825	25,233	24,148	23,957	32,717	16,897	15,863
Total operating expenses.....	30,429	30,928	30,184	30,158	39,414	20,356	19,110
Operating income	8,235	8,689	9,604	10,426	9,204	4,753	4,462
Financial income (expense)	(2,516)	(2,197)	(1,480)	(1,131)	(1,256)	(648)	(609)
Equity losses(3)	—	—	—	(439)	(887)	(458)	(430)
Extraordinary income (expense)(4) ...	35	(1,107)	(907)	(1,057)	368	190	179
Income before taxes	5,754	5,385	7,217	7,799	7,429	3,837	3,602
Income taxes	3,528	2,058	2,931	3,258	3,193	1,649	1,548
Net income	<u>Lit. 2,226</u>	<u>Lit. 3,327</u>	<u>Lit. 4,286</u>	<u>Lit. 4,541</u>	<u>Lit. 4,236</u>	<u>€ 2,188</u>	<u>\$ 2,054</u>
Earnings per share(5).....	Lit. 184	Lit. 274	Lit. 353	Lit. 375	Lit. 349	€ 0.18	\$ 0.17
Number of shares outstanding (in billions).....	12.1	12.1	12.1	12.1	12.1	12.1	12.1
<i>Amounts in accordance with U.S. GAAP(6):</i>							
Operating revenues.....	Lit. 38,623	Lit. 39,603	Lit. 39,770	Lit. 40,765	Lit. 51,179	€ 26,432	\$ 24,814
Depreciation and amortization	4,868	5,166	5,724	5,933	6,747	3,485	3,271
Operating income (7).....	9,040	8,312	8,687	9,879	7,870	4,064	3,816
Income before taxes (7).....	6,898	6,435	7,253	8,187	6,051	3,125	2,934
Net income	2,858	3,177	3,531	4,446	3,565	1,841	1,728
Earnings per share(5).....	Lit. 236	Lit. 262	Lit. 291	Lit. 367	Lit. 294	€ 0.15	\$ 0.14

See notes on next page.

	As of December 31,						
	1996	1997	1998	1999	2000	2000(1)	2000(2)
	(lire in billions)					(Euro in millions)	(dollars in millions)
Consolidated Balance Sheet Data							
<i>Amounts in accordance with Italian GAAP:</i>							
Fixed assets, net.....	Lit. 75,596	Lit. 76,151	Lit. 75,687	Lit. 73,411	Lit. 69,209	€ 35,743	\$ 33,556
Current assets.....	14,518	13,570	12,633	11,992	18,311	9,457	8,878
Total assets.....	93,626	92,658	90,579	87,165	96,104	49,634	46,596
Current liabilities.....	15,598	15,645	21,832	20,904	30,248	15,622	14,666
Short-term debt(8).....	3,817	5,089	10,480	6,741	12,404	6,406	6,014
Long-term debt(9).....	31,294	28,479	17,000	16,961	15,459	7,984	7,495
Shareholders' equity.....	30,380	32,515	35,880	34,034	35,457	18,312	17,191
<i>Amounts in accordance with U.S. GAAP(6):</i>							
Fixed assets, net.....	Lit. 73,176	Lit. 74,996	Lit. 74,961	Lit. 73,014	Lit. 72,422	€ 37,403	\$ 35,114
Total assets.....	92,018	92,355	90,659	87,793	105,594	57,535	51,197
Short-term debt(8).....	3,817	5,089	10,480	6,741	12,404	6,406	6,014
Long-term debt(9).....	31,294	28,479	17,000	16,961	15,459	7,984	7,495
Shareholders' equity.....	30,401	32,228	34,785	32,895	33,767	17,439	16,372

	As of December 31,						
	1996	1997	1998	1999	2000	2000(1)	2000(2)
						(Euro in millions)	(dollars in millions)
	(lire in billions)						
Consolidated Cash Flow Data							
<i>Amounts in accordance with Italian GAAP:</i>							
Net cash provided by operating activities	Lit. 8,022	Lit. 7,993	Lit. 15,248	Lit. 13,512	Lit. 9,484	€ 4,898	\$ 4,598
Net cash used in investing activities	(5,670)	(5,044)	(5,760)	(4,553)	(6,639)	(3,429)	(3,219)
Net cash used in financing activities	(2,376)	(2,748)	(7,021)	(10,786)	(2,921)	(1,509)	(1,416)
<i>Amounts in accordance with U.S. GAAP(6):</i>							
Net cash provided by operating activities	8,396	8,301	15,365	13,573	9,559	4,937	4,635
Net cash used in investing activities	(6,044)	(5,352)	(5,877)	(4,614)	(6,714)	(3,468)	(3,256)
Net cash used in financing activities	(2,376)	(2,748)	(7,021)	(10,786)	(2,921)	(1,509)	(1,416)

As of December 31,					
	1996	1997	1998	1999	2000
Operating Data (unaudited)					
Gross installed capacity (MW).....	57,072	58,223	58,906	59,418	58,967
Generation (TWh)(10).....	179.9	177.2	179.5	178.8	182.5
Sales to final customers (TWh).....	213.7	219.3	226.2	230.5	222.9
Customers (millions).....	28.7	29.0	29.3	29.7	29.9
Employees.....	95,464	88,957	84,938	78,511	72,647

(1) We have translated lira amounts into Euro amounts at the fixed rate of Lit. 1,936.27 = €1.00.

(2) We have translated lira amounts into dollar amounts at a rate of exchange of Lit. 2,062.49 = \$1.00, the lira equivalent (calculated at the fixed lira/Euro rate of Lit. 1,936.27 = €1.00) of the noon buying rate for Euro on December 29, 2000 of €1.00 = \$ 0.9388.

(3) For the year ended December 31, 1999, we began accounting for our investment in WIND under the equity method of accounting. We used the cost method of accounting in previous periods. You should read note 2 to our consolidated financial statements for a discussion of our consolidation principles.

(4) You should read note 24 to our consolidated financial statements for a discussion of the different criteria used under Italian GAAP and U.S. GAAP for determining what constitutes an extraordinary item.

(5) We calculate earnings per share by dividing our consolidated net income by the number of ordinary shares outstanding during each period. There were 12,126,150,379 ordinary shares outstanding during each period. Prior to our initial public offering in November 1999, all of our ordinary shares were owned by the Treasury Ministry. Following the offering, and at December 31, 2000, the Treasury Ministry owned approximately 68% of our ordinary shares.

(6) For information concerning differences between Italian GAAP and U.S. GAAP that are relevant to our consolidated financial statements, you should read notes 24 and 25 to our consolidated financial statements.

(7) Operating income under U.S. GAAP in 2000 is affected by the different treatment under U.S. GAAP of extraordinary contributions to the national pension system (Lit. 1,118 billion) and the operating loss incurred by WIND during the 5 months that it has been consolidated under U.S. GAAP (Lit. 619 billion). See notes 24 and 25 to our consolidated financial statements.

(8) Includes current portion of long-term debt.

(9) Excludes current portion of long-term debt.

(10) For the period beginning on January 1 of each year and ending as of such date.

Exchange Rates

The following table shows, for the periods indicated, information concerning the exchange rate between (i) the U.S. dollar and the lira and (ii) the U.S. dollar and the Euro. These rates are provided solely for your convenience. We do not represent that lire could have been, or that the Euro could be, converted into U.S. dollars at these rates or at any other rate.

The column of averages in the table below shows the averages of the relevant exchange rates on the last business day of each month during the relevant period. The high and low columns show the highest and lowest exchange rates on any business day during the relevant period.

	<u>End of period</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
<i>Lire per U.S. dollar(1)</i>				
<u>Year ended December 31,</u>				
1996.....	1,519	1,538	1,602	1,496
1997.....	1,769	1,712	1,841	1,516
1998.....	1,654	1,737	1,828	1,592
1999.....	1,923	1,828	1,933	1,639
2000.....	2,062	2,097	2,339	1,873
2001 (through June 15).....	2,244	2,158	2,290	2,034
<u>Month ended</u>				
December 31, 2000.....	2,062	2,155	2,208	2,062
January 30, 2001.....	2,080	2,065	2,109	2,034
February 28, 2001.....	2,102	2,103	2,138	2,061
March 30, 2001.....	2,202	2,132	2,202	2,073
April 30, 2001.....	2,182	2,169	2,196	2,144
May 31, 2001.....	2,290	2,212	2,290	2,167
<i>U.S. dollars per Euro(2)</i>				
1999.....	1.0070	1.0588	1.1812	1.0016
2000.....	.9388	.9232	1.0335	.8278
2001 (through June 15).....	.8628	.8974	.9520	.8455
<u>Month ended</u>				
December 31, 2000.....	.9388	.8983	.9388	.8771
January 30, 2001.....	.9308	.9376	.9520	.9181
February 28, 2001.....	.9212	.9205	.9395	.9057
March 30, 2001.....	.8794	.9082	.9340	.8794
April 30, 2001.....	.8874	.8925	.9032	.8816
May 31, 2001.....	.8455	.8753	.8937	.8455

(1) Based on the noon buying rate for the lira for 1996, 1997 and 1998. For 1999, 2000 and 2001, based on the noon buying rate for Euro and then converted in lire at the fixed lira/Euro conversion rate of Lit. 1,936.27 = €1.00.

(2) Based on the noon buying rate for the Euro for the periods indicated.

Our ordinary shares are quoted in Euro on Telematico, the Italian automated screen-based trading system managed by Borsa Italiana. Our American Depositary Shares, or ADSs are quoted in U.S. dollars and traded on the New York Stock Exchange.

The fixed conversion rate between the Euro and the lira established on December 31, 1998 was Lit.1,936.27 = €1.00.

On June 27, 2001, the noon buying rate for the Euro was \$0.8621 = € 1.00 and the effective noon buying rate for lire was Lit. 2,246.07 = \$1.00.

RISK FACTORS

You should carefully consider the risks described below and all of the other information in this document. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially adversely affected and the trading price of our ordinary shares or ADSs could decline.

Risks Relating to our Diversification Strategy

We are diversifying our operations, in part through acquisitions and, as a consequence, we face the risks and uncertainties typical of acquisitions.

In response to the regulatory changes described below, we have made a strategic choice to invest in businesses outside of our core electricity business, including telecommunications, gas and water. In entering these businesses and expanding our non-electricity operations, we will face commercial and other risks, as well as regulatory regimes relating to the acquired businesses, that are different from the ones we faced in the past. As part of this process of diversification, we recently acquired Infostrada, one of Italy's leading providers of fixed-line telecommunications and Internet services. You should read "—Risks Related to our Telecommunications Business."

We are also seeking to expand our water operations, principally by participating in competitive tenders for water distribution services. We are seeking to acquire Acquedotto Pugliese, a major Italian provider of integrated water distribution services that manages water services in the Regions of Puglia and Basilicata, from the Treasury Ministry. We are also engaged in negotiations for the acquisition of Southern Water PLC, a UK water and wastewater utility. We cannot anticipate the outcome of these negotiations. Please refer to "Item 4. Information on the Company—Business—Other Businesses—Water" for more information on our initiatives in the water sector. Expanding our water operations increases our exposure to the regulation of the water distribution business.

During the course of 2000, we have also acquired a number of smaller and medium-sized distributors of natural gas. See "Item 4. Information on the Company—Business—Other Businesses—Gas". Our entry into the gas sector exposes us to risks relating to the gas sector regulatory regime, which is also being liberalized.

Our ability to continue to diversify through acquisitions will depend upon our ability to consummate acquisitions on terms acceptable to us. We face challenges in integrating any acquisition into our businesses and may need to invest significant capital and resources in the acquired businesses. Acquisitions of businesses in new areas will also require us to hire and retain qualified personnel and expose us to uncertainties that are new to us. Because of the uncertainty associated with acquisitions, our new ventures may not achieve a profitability similar to our electricity business, or at all. In addition, because we may incur additional debt to finance new acquisitions, our financial expense would increase as we pay interest on that debt.

Recent acquisitions, including our purchase of Infostrada, has caused us to increase our level of indebtedness and otherwise affected our financial condition.

Our acquisition of Infostrada will have a significant effect on our results of operations and financial condition, primarily as a result of the amortization of goodwill arising from the transaction and the debt incurred in order to finance the acquisition. The purchase gave rise to Lit. 14,050 billion of goodwill. In addition, in connection with the acquisition, we incurred and will incur during the six-month period following the acquisition, certain ancillary costs amounting to a maximum of Lit. 727 billion,

which will also give rise to an equivalent amount of additional goodwill. We will have to amortize this goodwill over a period of 15 years. Until the closing of the transaction in late March 2001, we did not exercise any control over Infostrada. Therefore, we are unable to estimate what, if any, changes to the book value of Infostrada's assets we may be required to make in the future in order to reflect the fair value of such assets. Any change in the book value of these assets will result in a change in the amount of goodwill we are required to amortize. You should read "Item 4. Information on the Company—Business—Telecommunications—Infostrada—The Acquisition" for a more detailed discussion of the Infostrada transaction.

Risks Relating to our Electricity Business

Recent regulatory changes may have a significant adverse effect on our electricity business and its profitability.

The laws, regulations and policies of the European Union and the Italian government significantly affect our revenues and profits and the way we conduct our business. The regulatory framework for the Italian electricity market changed significantly in 1999 and 2000 because of the implementation of the Bersani Decree, which was designed to liberalize and create more competition in the Italian electricity market. The restructuring and other changes in our business that the new regulatory framework requires, together with increased competition in the business of electricity generation and supply, may have a material adverse effect on our results of operations and financial condition. You should read "Item 4. Information on the Company—Regulatory Matters—Electricity Regulation" for a detailed discussion of these regulatory changes.

The Bersani Decree will also require us to dispose of our distribution operations in certain municipalities that currently account for approximately 5% of our distribution customers. The decree also imposes other changes that will affect our business, including the creation of a pool market for electricity that had been scheduled to begin operations on January 1, 2000, but which we currently expect not to be operational until 2002. Prices on the pool market are to be determined by competitive bidding. Please refer to "Item 4. Information on the Company—Regulatory Matters—Electricity Regulation" for more information on the pool market.

Because the Bersani Decree is still in the process of being implemented, we cannot predict its full effect on our business and the Italian electricity market. The liberalization of the market provided for by the Bersani Decree is highly complex. Certain of the actions required of parties other than us have not occurred within the time periods for implementation set forth therein and it is likely that a number of the deadlines yet to occur may not be met in the future. Any failure to comply with the deadlines set forth in the Bersani Decree may subject the electricity market and its participants to a greater risk of legal or administrative challenge or uncertainty. We cannot predict the impact on us of future delays in the implementation of the Bersani Decree. Future changes in European Union or Italian government policy may also influence regulation and affect our business in ways that we cannot predict.

The new tariff regime that took effect on January 1, 2000 will significantly reduce our tariff revenues and may materially adversely affect our results of operations.

Prices paid for electricity by Non-Eligible Customers, i.e., those who must buy electricity in the regulated market, are subject to a new tariff regime that took effect on January 1, 2000. The new tariff regime has resulted in, and will continue to result in, significant reductions in our tariff revenues. Lower fixed tariff rates apply in 2000 for the generation, transmission and distribution of electricity. For the period 2001-2003, a price cap will apply to fixed tariffs for transmission and distribution. Due to the delay in the introduction of the pool market and competitive bidding, the Energy Authority implemented a

20% reduction in the fixed component of generation price in 2001. As a result of the introduction of the new tariff framework, average tariffs (not including the fuel cost component) for sales of electricity to Non-Eligible Customers declined by approximately 11% in 2000. We expect average tariff levels to decline further in 2001 as a result of the implementation of mandated price caps built into the tariff system in accordance with the Bersani Decree. The actual impact of these tariff reductions on our revenues depends on a number of factors, including the volume of electricity we sell in the regulated market and the mix of types of electricity we sell and customers we serve.

At the time the Bersani Decree was enacted in 1999, the Energy Authority estimated that our tariff revenues in 2003, including fuel cost reimbursements, would be 17% lower than our then-expected tariff revenues for 1999, assuming that the cost of fuel remained unchanged. Our actual tariff revenues for 2000 were in line with the estimates used by the Energy Authority. However, all these figures are estimates only and may change if regulatory tariff policies change or as a result of changes in electricity consumption or other factors (including the level of fuel prices on which the variable component of generation tariff is based). The level of electricity tariffs in years after 2003, which is not under our control and which we cannot predict, may change in ways that would materially adversely affect our future profitability.

If we are unable to increase electricity sales or reduce operating and other costs to offset the impact of the new tariff regime or otherwise implement our expansion and diversification strategies, the new tariffs may have a material adverse effect on our results of operations and financial condition. You should read “Item 4. Information on the Company—Regulatory Matters—Electricity Regulation—The new regulatory regime—The new tariff structure” for a more detailed description of the new tariffs.

Our generating capacity in Italy will decrease due to regulatory constraints; our operating profits may decrease as a consequence.

The Bersani Decree provides that after January 1, 2003 no single company or group may generate and import in aggregate more than 50% of the total amount of electricity generated and imported in Italy.

The Decree requires us to dispose of not less than 15,000 MW of our generating capacity by January 1, 2003 in order to reduce our market share. In October 2000, in compliance with the applicable regulations, we started the procedure for the sale of Elettrogen, the first of the three generating companies to which we transferred the generating capacity we selected for disposal, which we call the Gencos. We expect to complete the sale of Elettrogen within the second half of 2001. Following completion of our disposal of the three Gencos, we expect that we will generate approximately 39% of the total amount of electricity generated and imported in Italy in 2003. In 2000, approximately 13% of our total revenues and approximately 11% of our earnings before interest, taxes, depreciation and amortization were related to the three Gencos. In addition, the Antitrust Authority authorized our purchase of Infostrada subject to our disposal of an additional 5,500 MW of generating capacity within 90 days of the sale of the last Genco (see “Item 4. Information on the Company—Business—Telecommunications—Infostrada—The Acquisition”). We have appealed the decision of the Antitrust Authority before the Administrative Court of Lazio. Should our appeal not be successful, we will be required to dispose of this additional capacity. As a consequence of our disposal of the three Gencos and such additional capacity, our operating profits will decline unless we are able to offset the decrease in volumes of our generation business through improved efficiency, diversification of our operations or international expansion. Please refer to “Item 4. Information on the Company—Business—The Enel Group—Disposal of the Gencos” for a more detailed discussion of this process.

Our disposal of the Gencos may occur on unfavorable terms

The Bersani Decree says that our disposal of the Gencos must occur at market prices. However, our sale of these companies must be completed by January 1, 2003. The Italian government has also imposed certain limits on the bidding process and the ways in which potential acquirors must operate the Gencos. In addition, no single acquiror, acting either jointly or independently, may acquire control of more than one of the three companies. The applicable rules also establish limitations on the ownership by public entities of the Gencos' share capital. Please refer to "Item 4. Information on the Company—Business—The Enel Group—Disposal of the Gencos" for a discussion of these constraints. As a result, we may have to sell the Gencos at prices and terms less favorable than those we would obtain in the absence of these constraints.

The Bersani Decree requires us to sell a portion of our distribution networks and our operating profits may decrease as a consequence.

In a number of municipalities, both we and a utility owned in whole or in part by the local municipality currently distribute electricity. The Bersani Decree requires that only one license be granted for each municipality and provides that only distribution companies that are owned or partly owned by a municipality and serve at least 20% of the customers in that municipality may have requested that we sell our distribution network in that municipality to them by March 31, 2001, unless we had first reached an agreement for the consolidation of our respective networks in that municipality as of an earlier date.

We sold or have entered into agreements to sell our distribution networks in certain municipalities, including Rome, to three qualifying distribution companies, and received requests for the sale of our distribution networks from an additional 63 qualifying distribution companies, including those active in Milan, Turin and Verona. We estimate that, as of December 31, 2000, the networks in question accounted for approximately 5% of our distribution customers, 5% of our total annual distribution of electricity to final customers, 6% of our annual revenues and approximately 8% of our annual earnings before interest, taxes, depreciation and amortization.

The Bersani Decree provides that if we did not reach an agreement by September 30, 2000, with any of the qualifying parties who have made a timely request to purchase a distribution network, the price will be determined by an arbitration panel using accepted valuation methodologies that take into account market prices. As of June 2001, 16 of the qualifying companies have issued a formal demand for price arbitration, including those active in Milan, Turin and Verona. Although the Bersani Decree does not expressly limit our ability to negotiate with these parties beyond September 30, 2000, we face certain risks with regard to any agreement for the sale of our assets that is concluded after the deadlines set by the Bersani Decree. In addition, any sale price that could be decided through an arbitral process may not reflect what we believe is the actual value of our distribution assets or may be below the price that we could obtain in a negotiated sale.

Several of the co-existing distribution networks are located in major metropolitan areas. Historically, these areas have been where the electricity distribution business is more profitable and where our highest value customers are concentrated. In addition, the loss of customers in those municipalities, combined with the possible lowering of the consumption thresholds for qualification as an Eligible Customer and thus as a participant in the free market, could reduce our ability to expand into other utility businesses by limiting the customer base to which new utility services could be marketed.

We may have to increase our investments and incur additional costs to comply with newly implemented regulations on the quality of electricity service.

The Energy Authority has adopted new regulations on quality of service standards for electricity companies, particularly with regard to the frequency and duration of interruptions. In order to comply with these new regulations, we may need to increase the amount of investment above past levels or otherwise incur additional costs in providing our electricity services. In anticipation of the new regulations, we have planned investments of approximately Lit. 6,300 billion in the period 2001-2005 to enhance the quality of our service. We cannot yet predict whether the new regulations will require investments and costs above those which we have already planned or if our results of operations will be harmed by the system of customer service-related bonuses and penalties.

Our core electricity business and other businesses are subject to numerous environmental regulations that could significantly affect our results of operations and financial condition.

Our core electricity business and other businesses, such as power-related engineering and construction, telecommunications and water distribution, are subject to extensive environmental regulation under Italian law, including laws adopted to implement European Union regulations and directives and international agreements on the environment. Environmental regulations affecting our business primarily relate to air emissions, water pollution, waste disposal and electromagnetic fields. The principal air emissions deriving from fossil-fueled electricity generation are sulfur dioxide (SO₂), nitrogen oxides (NO_x), carbon dioxide (CO₂) and particulate matters such as dust and ash. A primary focus of environmental regulation applicable to our business is to reduce these emissions.

We incur significant costs to comply with environmental regulations requiring us to implement preventive or remediation measures, although in some cases we may benefit from a reimbursement mechanism provided by law. In addition, expressions of public concern about environmental problems may result in even more stringent regulation in the future. Environmental regulatory measures:

- May take such forms as emission limits, taxes or required remediation measures; and
- May influence our policies in ways that affect our business decisions and strategy, such as by discouraging our use of certain fuels.

We spent a total of Lit. 1,500 billion (including environmental taxes) in 2000 on measures to minimize the impact of our operations on the environment, including measures to comply with applicable law. Major expenditures include capital expenditures to limit SO₂ and NO_x emissions in generation and to install underground cables in our distribution network. In addition, we also incurred approximately Lit. 2,000 billion in 2000 in additional fuel costs to comply with environmental regulations.

We are parties to a significant number of legal proceedings relating to environmental matters. The aggregate amounts of damages that we may be required to pay and the aggregate costs of remediation or preventive measures we may be required to implement following final adjudications in these proceedings may be significant.

You should read “Item 4. Information on the Company—Regulatory Matters—Environmental matters” and “Item 8. Financial Information—Other Financial Information—Legal Proceedings” for a more complete discussion of environmental matters.

We may incur significant capital expenditures to comply with new legislation on electromagnetic fields; we may not be fully reimbursed for these capital expenditures.

The Italian parliament recently passed a new law on electromagnetic field exposure. The 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 infrastructures, including electricity transmission and distribution lines and substations, and high-frequency infrastructures, including the transmission stations that WIND uses to provide mobile telephone services. The new law may make it more difficult for us to install new electricity transmission and distribution lines and substations in the future and may limit WIND's ability to expand the coverage for its mobile operations. The new law also provides for the adoption and implementation of programs to bring existing electricity transmission and distribution lines, substations and high frequency infrastructures into compliance with electromagnetic exposure requirements to be set by the Italian government. Current limits for high-frequency infrastructures were set in 1998 and are expected to continue unchanged. If the Italian government were to set limits that are stricter than those currently in effect, in order to comply with the requirements of the new law, we would be required to upgrade, move or make other changes to some of our existing electricity lines and transmission and distribution facilities and /or our mobile telephony infrastructure. This process would involve significant costs. Although with respect to electricity transmission and distribution lines and substations, the new law requires the Energy Authority to set criteria, terms and conditions for the recovery of the costs that the owners would bear in implementing the required restructuring, any actual reimbursements we receive may be lower than our actual costs. Our results and financial condition may be adversely affected as a consequence. You should read "Item 4. Information on the Company—Regulatory Matters—Environmental matters" for a more detailed description of the new law.

The competition we face in the electricity market will increase.

For many years we had virtually no competition in the markets for the generation, transmission and distribution of electricity in Italy. The increase in competition under the new electricity market structure called for by the Bersani Decree may materially adversely affect our results of operations and financial condition. In particular, electricity prices in competitive markets may be lower than existing tariffs and our results of operations may be adversely affected as a consequence.

We currently face limited competition from independent power producers and municipal utilities in our generation business. We also face competition from suppliers and wholesalers for sales to so-called Eligible Customers, that are intensive users of electricity and may freely purchase electricity from different producers. Competition will increase as the industry is liberalized. The government recently mandated transfer to the free market of approximately 45 TWh hours of "CIP 6" electricity produced from renewable resources and lowered consumption thresholds for qualification as an Eligible Customer, thus increasing the number of customers able to participate in the free market. We expect that competition will increase further:

- after the introduction of the pool market, on which prices will be determined by competitive bidding; and
- after we dispose of each of the Gencos to parties that will become our primary competitors in the Italian generation market.

Increased competition could reduce our market share, revenues and margins. In addition, although we do not expect that the amount of imported electricity sold in Italy will increase significantly because of capacity constraints on transmission interconnections with other countries, the ability of other

suppliers to purchase imported electricity, which is generally less expensive than that produced in Italy, and resell that electricity in the Italian market will tend to reduce electricity prices. For a more complete description of the new regulation of the industry and the way we expect it to affect the market, you should read “Item 4. Information on the Company—Regulatory Matters—Electricity Regulation”.

Significant increases in fuel prices will have a negative effect on our operating results

Our thermal generating plants use fuel oil, natural gas and coal to generate electricity. Increases in energy prices therefore have a direct effect on our operating costs. In 2000, our fuel costs increased by approximately 73% compared to 1999, reflecting significantly higher market prices for energy, particularly fuel oil. Both the cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world that we can neither control nor accurately predict. Substantial price increases or the unavailability of adequate supplies could have a material adverse effect on our results of operations and financial condition.

Interruptions in the availability of natural gas would adversely affect our operations.

In 2000, approximately 36% of the electricity we produced was generated by plants using natural gas. Our use of natural gas has increased in recent years, and can be expected to continue to increase in the near future, particularly as we convert plants to combined cycle technology. A significant portion of the natural gas we currently use depends on supplies from Algeria and Nigeria. Security concerns associated with this imported supply make our natural gas-powered operations especially sensitive to the availability of natural gas.

Risks Related to our Telecommunications Business

WIND’s and Infostrada’s ability to offer competitive services depends on the use of rapidly changing technologies, which are unproven and can require the expenditure of significant amounts.

The telecommunications industry is subject to rapid technological change, which puts pressure on existing participants and new entrants to develop new or advanced fixed-line, mobile or Internet technologies that are unproven and may not provide the expected advantages over existing technologies. We cannot predict the effect of these technological changes on WIND or Infostrada or their ability to provide competitive services.

In late 2000, WIND made an initial payment of Lit. 4,000 billion in order to acquire a UMTS license from the Italian government for the provision of third generation mobile telephony services. WIND will be required to make substantial investments during the next several years in order to build out its UMTS network and develop related services and products, as well as paying an additional Lit. 700 billion in respect of its license over the next ten years. UMTS technology and UMTS-related services, however, are unproven. If UMTS technology is not developed on a timely basis, or if it does not deliver the anticipated advantages over current services or gain widespread acceptance, WIND’s results of operations could be materially and adversely affected.

In connection with WIND’s purchase of the UMTS license, we and France Telecom together made available to WIND a total of Lit. 1,600 billion, of which we were responsible for approximately Lit. 906 billion, the amount proportional to our shareholding in WIND. WIND raised the additional funds to make the Lit. 4,000 billion initial payment for the license through a finance agreement with a syndicate of international banks. The bank that had previously granted project finance to WIND granted WIND a specific waiver, currently valid until November 2001, to expand the original purposes for which the funds they had provided could be used and to allow WIND to incur the additional debt represented by this new

loan. The finance agreement requires that WIND comply with certain financial and other conditions. WIND is likely to face higher financing costs and we may be required to make repayments if WIND fails to comply with these conditions. WIND currently expects to refinance its existing debt during the second half of 2001 and may face increased financing costs at that time.

We and France Telecom have also delivered a counter-guarantee in connection with WIND's financing of the remaining Lit. 700 billion due for the license, which WIND can pay over a period of ten years.

WIND and Infostrada expect that competition for resources and infrastructure needed to develop new telecommunications technologies will intensify. As new technologies develop, WIND and Infostrada may be placed at a competitive disadvantage and competitive pressures may force them to implement these new technologies at a substantial cost. If WIND and/or Infostrada are unable to implement these new technologies on a timely basis, penetrate new markets in a timely manner in response to changing market conditions or customer requirements, or if new or enhanced services offered by either of them do not achieve a significant degree of market acceptance, WIND and/or Infostrada could experience a material adverse effect on respective operating results.

WIND and Infostrada face increasing competition.

The Italian and EU telecommunications sector is highly competitive and we expect competition to increase.

In fixed-line telephony, WIND and Infostrada compete primarily with Telecom Italia, the incumbent operator that historically held a monopoly for fixed-line services in Italy and continues to hold a significant majority of the overall market for fixed-line services. WIND and Infostrada also face competition from a rapidly growing number of other fixed-line operators that, like WIND and Infostrada, seek to offer customers an alternative to Telecom Italia.

WIND also faces strong competition in its mobile telephone business, particularly from Telecom Italia Mobile and Omnitel Pronto Italia, the two leading wireless operators in Italy. Competition increased further with the arrival in 2000 of Blu, a fourth mobile telephone service provider. WIND expects further competition from two new mobile operators which, along with Telecom Italia Mobile, Omnitel and WIND, successfully bid for UMTS licenses for third generation mobile telephony services in 2000.

WIND and Infostrada also face significant competition from existing operators in the Internet and data service areas, and we expect that new competitors will emerge as these markets continue to evolve and grow.

Telecom Italia, WIND's and Infostrada's principal competitor, has greater financial resources, more developed infrastructure and largest market share than WIND and Infostrada do, either individually or as a combined entity. In order to compete effectively with existing competitors and any new entrants, WIND and/or Infostrada may be required to reduce their respective tariffs further and make additional capital expenditures to develop their respective services; subsequent reductions in revenues or increases in costs could have a material adverse impact on WIND's and/or Infostrada's operating results.

We may not be able to successfully integrate the businesses of WIND and Infostrada.

We need to integrate the operations, infrastructure, personnel and services of Infostrada and WIND. The difficulties of integration may be increased by the necessity of coordinating the operation

and buildout of two networks which overlap in some locations, of combining sales and marketing efforts for similar fixed-line telephony products and of efficiently integrating the management of the two companies while retaining key personnel of both companies. Failure to successfully integrate Infostrada with WIND could place an excessive strain on WIND's or Infostrada's management, cause customer dissatisfaction, lead to inefficient operations and increase our capital expenditures related to our investment in WIND.

WIND and Infostrada rely on their agreements with other fixed-line and mobile telephone carriers to provide telephone services.

WIND and Infostrada depend on their interconnection agreement with Telecom Italia's network to provide indirect access for their fixed-line telephone services and on their ability to lease lines from Telecom Italia to provide direct access for certain of WIND's and Infostrada's largest corporate clients. WIND and Infostrada also rely on interconnection and roaming agreements with other telephone operators, including international carriers, to expand the scope and range of their telephony services. WIND's and Infostrada's ability to operate their and offer services to their customers may be adversely affected if Telecom Italia or any of the other carriers with which WIND or Infostrada have such an agreement fails to provide WIND's and/or Infostrada's customers with access to their network or is willing to do so only on terms and conditions that are unacceptable to WIND and/or Infostrada. WIND's and/or Infostrada's ability to offer telephone services at competitive prices may also be adversely affected if the interconnection fees resulting from these agreements increase.

WIND and Infostrada may not be able to expand their fixed-line business as planned if the Italian Communications Authority fails to open up the Italian fixed-line network to competition through "unbundling the local loop".

WIND and Infostrada plan to offer direct access to their fixed-line customers following the unbundling of the local loop, a process whereby Telecom Italia is required to give alternative carriers such as WIND and Infostrada access to the "local loop", Telecom Italia's "last-mile" connections that include the wires leading to a customer's home or office. European regulations require that unbundling of the local loop be completed by January 1, 2001. In December 2000, the Communications Authority set forth a stringent timeframe for unbundling the local loop. However, due to the highly complex technical process required to achieve this objective, the unbundling has been delayed, and the Communications Authority has granted Telecom Italia an extension of certain deadlines beyond January 1, 2001.

Any delay in the unbundling of the local loop is likely to adversely affect WIND's and Infostrada's strategy to offer direct access to their customers. WIND or Infostrada may also be adversely affected if access to the local loop is offered only on economic terms that do not make it financially attractive for WIND or Infostrada to offer direct access to their customers.

WIND's and Infostrada's ability to build out their network is dependent on their receipt of licenses and government authorizations.

WIND and Infostrada require government licenses and authorizations for rights of way to build out their network. We cannot assure you that WIND and/or Infostrada will be able to obtain new licenses or authorizations or renew those that expire, in which case WIND or Infostrada will have to alter their plans for the development of their network. WIND and/or Infostrada may be also adversely affected if other telecommunications operators obtain licenses and authorizations on more favorable terms.

We have made significant capital investments in developing our telecommunications business and expect that we will continue to be required to do so. Recently, we incurred a substantial amount of

debt and made significant expenditures in connection with WIND's purchase of a third generation UMTS mobile license and our acquisition of Infostrada. You should read "Item 4. Information on the Company—Business—Telecommunications—WIND—Financial Results"

The success of our telecommunications business will be affected by our ability to retain key personnel.

We believe that WIND's and Infostrada's growth and future success will depend in large part on their continued ability to attract and retain highly skilled and qualified personnel. The competition for qualified personnel in the telecommunications and Internet industries is intense. The loss of senior management or the failure to recruit and train additional qualified personnel in the future could significantly impede our plans to build telecommunications as a core business.

Although we have a majority interest in WIND, major business decisions require the agreement of our partner.

Although we own 56.6% of WIND's shares, WIND's by-laws and our shareholder agreement with France Telecom effectively require that we and France Telecom agree on major business and strategy decisions. We can give you no assurance that we and France Telecom will agree on such matters in the future. Our failure to reach an agreement with France Telecom at any such time may also prevent us from implementing strategies that we then believe would be beneficial to WIND. Our shareholder agreements provide that if we fail to agree with France Telecom on certain of these matters, we may be required to buy France Telecom's shares in WIND, and in some cases, to pay a premium to France Telecom above the shares' market value. Our agreements also provide for a put option in the event of a deadlock between France Telecom and us that entitles one party to sell its shares to the other at the price set forth in the agreement after certain dispute resolution mechanisms are exhausted. You should read "Item 4. Information on the Company—Business—Telecommunications—WIND—Agreements with France Telecom" for a more detailed discussion about our shareholder agreements.

Other Risks Relating to our Businesses

If the Italian government reduces early retirement pensions, it will be more expensive for us to continue our plan of voluntary workforce reduction.

Our ability to improve labor productivity and reduce the aggregate number of our employees may be affected by changes in government regulation. Beginning in 1996, we have reduced our headcount substantially, primarily by providing incentives for early retirement and through attrition. In recent years, a number of Italian political figures have proposed plans for significant reform of the national pension system. Any substantial reform of the current system may reduce the availability of early retirement pension benefits. If this occurs, it may be more expensive for us to continue our plan of voluntary headcount reduction.

The difference between the treatment under Italian GAAP and U.S. GAAP of cash payments we are required to make to the Italian national pension system in the years 2000-2002 has had and will have a significant negative effect on our U.S. GAAP results in each of those three years.

The Italian state budget for 2000 provided for the termination of the electricity pension fund and the enrollment of electricity workers in the general pension fund for Italian employees. We expect that the net impact of this change on our cash flow over the three year period from 2000 to 2002 will be approximately Lit. 3,500 billion. This estimate includes the effect of lower payments we will make to the national pension system in respect of the family benefits program following the January 2000 reduction of

3.72 percentage points in the rate on which our payments are based. Under Italian GAAP, we are expensing the amounts paid in the years 2000-2002 proportionately over the twenty-year period between 2000 and 2019. However, for U.S. GAAP purposes, we are required to expense these amounts in 2000-2002, during the year that the contributions are due. The difference between the treatment of these payments under Italian GAAP and U.S. GAAP has had and will have a significant negative effect on our U.S. GAAP results in each of the three years in which we are expensing the payments. You should read “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements for a more detailed description of the reform of the electricity pension fund.

The phasing in of the Euro by January 1, 2002 may pose operational problems and require additional expenditures.

We are modifying our computer systems and programs in the ordinary course of business to accommodate transactions in Euro. Although we believe that we will not incur any further expenditures related to the conversion to the Euro apart from these ordinary course modifications, there can be no assurance that the conversion to the Euro will not have an adverse effect on our business, operations or financial condition. Whether or not the Euro conversion will have an adverse effect on us is dependent on, among other things, our ability to execute successfully plans to mitigate the risks associated with the conversion, as well as the execution of transition plans by the many firms and financial institutions with which we do business.

Risks relating to our Ordinary Shares and ADSs

The Treasury Ministry is our majority shareholder and will continue to control important actions of our company.

The Treasury Ministry holds approximately 68% of our outstanding share capital and therefore controls us.

So long as the Treasury Ministry holds a majority of our ordinary shares, it will have the right to:

- Control a number of important actions that we take, including the power to block capital increases and other amendments to our by-laws;
- Elect the chairman of the board of directors and all but one-fifth of the other directors; and
- Appoint a member and an alternate member to our board of statutory auditors.

The special powers of the Italian government may limit our shareholders’ ability to benefit from a premium in connection with a change of control transaction.

The Italian privatization law and our by-laws confer upon the Italian government, acting through the Treasury Ministry (which will act after consultations with and in agreement with the Industry Ministry), certain special powers with respect to our business and actions by our shareholders. These powers will permit the government to influence our business regardless of the level of its shareholding. The Government may review the scope and duration of the Treasury Ministry’s special powers starting from September 2004.

The Treasury Ministry directly appoints one member of our board of directors and the chairman of our board of statutory auditors, in addition to the directors and statutory auditors elected by the

Treasury Ministry in its capacity as a shareholder. In addition, the Treasury Ministry has veto power over:

- Whether any investor acquiring 3% or more of our share capital has the right to vote at our shareholders' meetings. Should the Treasury Ministry exercise this veto power, investors must sell their shareholding in us within one year;
- Whether shares that are subject to shareholders' agreements covering 5% or more of our share capital may be voted at our shareholders' meetings; and
- Major corporate actions involving us such as a merger or a demerger.

As a result, independent of the Treasury Ministry's interest in our share capital, we may not enter into change of control transactions without the approval of the Treasury Ministry, in agreement with the Industry Ministry. This may limit our shareholders' ability to benefit from a premium in connection with a change of control transaction.

The value of the ordinary shares or ADSs may be adversely affected by sales of substantial amounts of ordinary shares by the Treasury Ministry or the perception that such sales could occur.

The Treasury Ministry may sell additional portions of its shareholding in us at any time and has announced that it intends to do so in the future. There are no minimum ownership or similar requirements under Italian law that would limit sales of additional shares by the Treasury Ministry. Sales of substantial amounts of our ordinary shares in the public market by the Treasury Ministry, or the perception that such sales could occur, could adversely affect the market price of the ordinary shares and ADSs and our ability to raise capital through equity offerings.

The dollar value of dividends we pay in respect of our ordinary shares and ADSs will be affected by the Euro/dollar exchange rate.

We pay cash dividends in lire and will start paying cash dividends in Euro on July 9, 2001; as a result, exchange rate movements may affect the U.S. dollar amounts that investors receive from the depositary if they hold ADSs. The price of our ordinary shares is quoted in Euro. Exchange rate movements may also affect the U.S. dollar price of the ADSs and the U.S. dollar equivalent of our ordinary share price.

If you hold ADSs rather than ordinary shares it may be difficult for you to exercise some of the rights of a shareholder.

It may be more difficult for you to exercise the rights of a shareholder if you hold ADSs than it would be if you directly held ordinary shares. For example, if we offer new shares and you have the right to subscribe for a portion of them, the depositary is allowed, in its own discretion, to sell for your benefit that right to subscribe for new shares instead of making it available to you. Also, in some cases you may not be able to vote by giving instructions to the depositary on how to vote for you.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements include among other things:

- Our intention to develop our telecommunications business and to integrate WIND and Infostrada;
- Anticipated trends in our business, including trends in demand for electricity;
- Our ability to implement successfully our cost reduction program;
- Changes in our regulatory environment and expectations on how the new regulations will be implemented;
- The impact of the change in tariffs that took effect on January 1, 2000;
- The disposal by January 1, 2003 of 15,057 MW of our net installed capacity (equivalent to approximately 16,000 MW of gross installed capacity), through our disposition of the three Gencos we created in 1999;
- The disposal, within 90 days following our disposal of the last Genco, of 5,500 MW of additional generation capacity as ordered by the Antitrust Authority in connection with its decision on our acquisition of Infostrada, that we have appealed;
- The consolidation of distribution networks in many municipalities, including the possible sale of portions of our distribution network to municipal utilities;
- The remuneration of our generation activities based on competitive electricity prices rather than tariffs following the introduction of the pool market, which we currently expect to occur sometime in 2002;
- Our intention to develop new businesses or expand our non-core businesses; and
- Future capital expenditures and investments.

The forward-looking statements included in this annual report are subject to risks, uncertainties and assumptions about our company. Our actual results of operations may differ materially from the forward-looking statements as a result of, among other things, the risk factors described under “Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise occurring after the date of this annual report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

Item 4. *Information on the Company*

HISTORY AND DEVELOPMENT OF THE COMPANY

We were established in December 1962 as a state-owned entity (Ente Nazionale per l'Energia Elettrica) through the nationalization of approximately 1,250 private power companies in Italy. Our principal objective following the nationalization was to provide low cost electricity to support the development of the country. We believe that we have accomplished the purpose for which we were established. In 1962, of a total population of 51 million, about 2 million Italians did not have electricity, and the country had only approximately 300,000 kilometers of high, medium and low tension electricity lines. Electricity now reaches virtually the entire Italian population, and at September, 2000, the country had about 1,095,700 kilometers of transmission and distribution lines.

In 1992, we ceased to operate as a public entity and were transformed into a joint stock company, Enel S.p.A. In 1997, we formed WIND Telecomunicazioni S.p.A., which is now our joint venture with France Telecom, for telecommunication services. During 1998, we organized our operations to establish strategic divisions, with separate management structures, for each of our main businesses. Beginning in October 1999, as required by the Bersani Decree, we formed separate companies to which we assigned the responsibility (and related assets, liabilities and personnel) of each of our significant businesses. In addition to WIND, which is active in the telecommunications sector, our key subsidiaries include the following: Enel Produzione S.p.A., for energy generation; E.R.G.A. S.p.A., for generation of energy from renewable sources; Enel F.T.L. S.p.A., which purchases fuel for all of our generating operations and is active in the fuel trading and logistics sector; Terna S.p.A., which owns and operates Italy's national electricity grid; Enel Distribuzione S.p.A., which distributes electricity to so-called Non-Eligible Customers (who must purchase electricity from a local distributor); Enel Trade S.p.A., which sells electricity to so-called Eligible Customers (who may purchase electricity on the free market); SEI S.p.A., which provides commercial real estate management services; Enel.it, our group-wide information technology unit; So.l.e. S.p.A., which operates our public lighting services in Italy and abroad; and Enel.si S.p.A. which offers electricity systems-related services and "beyond the meter" products and services, such as consulting and sale of electricity equipment. Each of the entities named in this paragraph is an Italian corporation.

In November 1999, we completed an initial public offering of 3,848,802,000 shares, representing a sale of 31.74% of the company. The gross proceeds of the initial public offering were Lit. 32,045 billion. As a result of the initial public offering, our ADSs were listed on the New York Stock Exchange and our shares were listed on Mercato Telematico Azionario or Telematico, the Italian screen-based dealer market managed by Borsa Italiana S.p.A.

Since 1999, we have continued to diversify our business in order to provide a variety of utilities and services. Our new business sectors include power-related engineering and construction services in developing countries (through Enelpower S.p.A.), water distribution (through Enel.Hydro S.p.A.), and gas distribution (through several independent gas distributors we have acquired). Complementing our existing telecommunications business (WIND), in March 2001, we acquired from a subsidiary of Vodafone Group plc all of the outstanding shares of Infostrada, one of Italy's leading alternative providers of fixed-line telecommunications services, the owner and operator of one of Italy's leading Internet portals and its leading Internet services provider.

Enel S.p.A. is a *società per azioni*, i.e. a joint stock company whose capital is represented by shares, incorporated under the law of Italy. Our statuto, or bylaws, provide that the duration of our company is until December 31, 2100. Our registered office is at Viale Regina Margherita 137, Rome Italy. Our telephone number is +39.06.8509.1. Our agent in the United States is The Honorable

Ferdinando Salleo, Italian Ambassador to the United States, with an address at 1601 Fuller Street, N.W., Washington, D.C. 20009.

BUSINESS

Overview

We are the principal electricity company in Italy, with the leading position in the generation, transmission, distribution and supply of electricity. Our net electricity production in 2000 was 182.5 TWh, having increased by 2.1% from 1999. Based on data provided by the *Gestore della Rete*, we estimate that such production represented 69.6% of Italian production during 2000. According to Bloomberg, in the year 2000, measured by the amount of electricity sold, we were the third-largest electric utility in the 29 member states of the Organization for Economic Co-operation and Development and, based on market capitalization, we were the largest publicly traded electric utility in Europe. Based on revenues, we are one of the largest industrial companies in Italy, with operating revenues of Lit. 48,618 billion, or approximately \$24 billion, in 2000. We earned net income of Lit. 4,236 billion, or \$2.1 billion, in 2000.

We produce a majority of all electricity generated in Italy through our generation segment, which consists of Enel Produzione S.p.A., our primary generating company, ERGA S.p.A., which specializes in producing electricity from renewable resources, and Eurogen S.p.A., Elettrogen S.p.A. and Interpower S.p.A., the three newly formed companies we call the Gencos, which own generating plants having a net installed capacity totaling approximately 15,000 MW. As of December 31, 2000, we have 746 generating plants, consisting of thermal, hydroelectric, geothermal and other renewable resources facilities, which, based on data provided by the *Gestore della Rete*, we estimate represented approximately 76% of the total gross installed capacity in Italy as of December 31, 2000. In 2000, 77.5% of our production was from thermal plants, 20.1% was from hydroelectric plants and the remaining 2.4% was from geothermal and other renewable resources plants. We no longer own or operate any nuclear plants. As explained in more detail below, recent Italian legislation designed to liberalize the electricity market requires us to dispose of approximately 27% of our generating capacity by 2003. We will dispose of the Gencos to meet this requirement.

Through Terna S.p.A., we continue to own almost all the transmission assets of Italy's national electricity grid and we are the sole owner of Italy's network of high voltage 380 kV lines. However, as a part of the liberalization of the Italian electricity sector, we were required to transfer responsibility for the management and control of the national transmission grid and responsibility for electricity dispatching to Gestore della Rete di Trasmissione Nazionale S.p.A., commonly referred to as the *Gestore della Rete*, a company now wholly owned by the Treasury Ministry following our transfer of all of its shares to the Treasury Ministry free of charge on April 1, 2000. The transmission system that we own and that the *Gestore della Rete* operates carries almost all the electricity transmitted to distribution networks for sale in Italy. At December 31, 2000, that transmission system consisted of a total of 37,216 km of lines and 261 primary transformer stations.

Through Enel Distribuzione S.p.A., we are the largest electricity distributor in Italy. In 2000, we provided electricity to approximately 92% of the residential customers in Italy. Of the 192.4 TWh of electricity we sold to the final customers in the regulated market in 2000, approximately 40% went to industrial customers, 29% to customers in the commercial and other services sector, 29% to residential customers and 2% to the agricultural sector. We also distributed a total of 43.5 TWh of electricity to Eligible Customers participating in the free market and sold to other distributors or exported an aggregate of 8.7 TWh of electricity during the year. At December 31, 2000, our distribution network consisted of a total of 1,062,879 km of lines, mostly medium and low voltage, and 409,722 primary and secondary

transformer substations, with a total transformer capacity of 155,009 MVA. As described in more detail below, recent Italian legislation requires us to dispose of our distribution networks in certain municipalities.

The following table shows selected operating data for our electricity operations for each of the past five years. Net production equals gross production of electricity less consumption by units generating electricity and mechanical and electrical losses in production.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Gross installed capacity at period end (GW).....	57.1	58.2	58.9	59.4	58.9
Net production (TWh).....	179.9	177.2	179.5	178.8	182.5
Electricity sold to final customers and to municipal distributors (TWh).....	213.8	219.3	226.2	230.5	222.9
Customers at year end (millions).....	28.7	29.0	29.3	29.7	29.8

Our most significant business outside of our core electricity operations is WIND, our telecommunications joint venture with France Telecom. As of March 31, 2001, WIND provided integrated fixed-line and mobile telephony services to approximately 5.1 million customers in Italy and had approximately 1 million registered users for its internet access services. On March 29, 2001, we acquired from a subsidiary of Vodafone Group plc all of the outstanding shares of Infostrada, one of Italy's leading alternative providers of fixed-line telecommunications services, the owner and operator of one of Italy's leading Internet portals and its leading Internet services provider. You should refer to “—Telecommunications—Infostrada—The Acquisition” for a more detailed discussion of the Infostrada transaction.

In accordance with our multi-utility, multi-service strategy, we are also diversifying into other businesses that include gas and water distribution, as well as developing our engineering and construction and real estate services and our public lighting, electricity systems-related services and information technology and fuel trading and logistics resources.

The following chart sets forth our principal business units and the companies through which some of these businesses are conducted.

Name	Principal Business	Country of Incorporation	Group Percentage Ownership
Enel S.p.A.	Holding Company	Italy	
Enel Produzione S.p.A.	Electricity power generation	Italy	100%
Eurogen S.p.A.	Electricity power generation	Italy	100%
Elettrogen S.p.A.	Electricity power generation	Italy	100%
Interpower S.p.A.	Electricity power generation	Italy	100%
Erga S.p.A.	Electricity power generation from renewable geothermal and alternative sources	Italy	100%
Elettroambiente S.p.A.	Electricity power generation waste	Italy	100%
Terna S.p.A.	Transmission of electric power	Italy	100%
Enel Distribuzione S.p.A.	Electric power distribution and sales to Non-Eligible Customers	Italy	100%
Enel Trade S.p.A.	Sales of electric power to Eligible Customers	Italy	100%
Enel F.T.L. S.p.A.	Fuel trading and logistics	Italy	100%
Enel.Hydro S.p.A.	Design, construction and management of water distribution networks	Italy	100%
Sei S.p.A.	Commercial real estate management and general services	Italy	100%
Dalmazia Trieste S.p.A.	Residential real estate management	Italy	100%
Conphoebus S.p.A.	Renewable energy related services	Italy	100%
Enelpower S.p.A.	Engineering and development of generation and transmission systems	Italy	100%
Enel.it S.p.A.	Information technology and infrastructure related to transmission services	Italy	100%
So.l.e. S.p.A.	Public lighting	Italy	100%
Enel.re.Ltd	Reinsurance	Ireland	99.99%
Enel.si S.p.A.	Electricity systems-related services	Italy	100%
Enel.factor S.p.A.	Factoring	Italy	80.00%
Agas S.p.A.	Natural gas distribution	Italy	100%
Colombo Gas S.p.A.	Natural gas distribution	Italy	100%
So.ge.gas S.p.A.	Natural gas distribution	Italy	100%
CESI S.p.A.	Services and research for the electricity sector	Italy	57.92%
Enel Capital S.p.A.	Venture capital	Italy	100%
Wind S.p.A.	Telecommunications	Italy	56.63%
IT.Net S.p.A.	Internet provider	Italy	100% owned by Wind S.p.A.
Mondowind S.r.l.	Telecommunications product sales	Italy	100% owned by Wind S.p.A.
Infostrada S.p.A.	Telecommunications	Italy	100%

Strategy

Consistent with the objectives announced during the first phase of our privatization and capitalizing on the achievements of our new management since its appointment in 1996, during the next few years we intend to

- Continue to reduce costs and optimize efficiency and invested capital in our electricity businesses;
- Capitalize on our broad customer and asset base in order to be a leading multi-utility player;
- Further develop our rapidly growing telecommunications activities; and
- Selectively implement an international expansion.

Continue to reduce costs, and to optimize efficiency and invested capital in our electricity businesses. Since the approval of the Bersani Decree, which set the framework for liberalizing the Italian electricity market, competition has increased in our core electricity generation and distribution businesses, both from existing market participants and new entrants. In addition, significant reductions in government-set electricity tariffs that came into effect in 2000 have reduced and will continue to reduce our revenues from sales of electricity. In order to respond to these challenges, we intend to continue implementing rationalization and cost-cutting programs in each of our electricity businesses.

In so doing, we intend to build on our achievements to date, including the following:

- we have decreased our total number of personnel from 95,464 at December 31, 1996 to 72,647 at December 31, 2000, excluding those employed by WIND. In 2000, we reduced our headcount by approximately 7.5% of the total at the beginning of the year. As a result of these cuts, we reduced our personnel costs by a total of approximately 27% between 1996 and 2000;
- we have reduced our annual costs associated with general services, materials and supplies as a percentage of our revenues from approximately 13% in 1996 to approximately 10% in 2000;
- we have initiated focused cost reduction and management rationalization programs in each of our electricity businesses to improve our efficiency and competitiveness, which we intend to complete in the next few years; and
- we have established Enel Trade as the leading supplier of electricity to the free market, offering Eligible Customers tailored electricity services, value-added services and the supply of natural gas, which we plan to expand in the near future.

As part of our regular analysis and updating of our business plan, we have reviewed our internal targets and established new and more ambitious objectives. We intend to continue our cost reduction efforts while investing in each of our electricity businesses, with our principal objectives being:

- improving the efficiency of our generating facilities to better compete in the liberalized market;

- enhancing the cost position and service quality of our electricity transmission and distribution operations in an effort to maximize our profitability from price-regulated activities; and
- leveraging our distribution assets so as to create, in the medium term, a platform for an integrated offering of multi-utility services to our broad customer base.

Generation. In order to allow our generation business to compete effectively in the liberalized market, we plan to:

- convert to combined cycle gas turbine, or combined cycle, technology thermal plants that represent at least 4,500 MW of the net installed capacity we will retain after disposing of the Gencos. We currently expect to invest approximately Lit. 2,500 billion in this project through its anticipated completion in the year 2005. We expect these investments to increase the thermal efficiency and productive flexibility of our generating assets significantly;
- continue to improve the fuel mix we use for electricity generation so as to allow us to burn less expensive fuel, as well as reduce fluctuations in our overall fuel costs. We aim to reduce the amount of electricity we produce from high cost, low sulfur fuel oil by increasing the amount generated from natural gas and low cost fuels such as orimulsion and coal, while continuing to comply with applicable environmental requirements, and we also plan to install new desulphurization and denitrogenation units in selected thermal plants;
- decrease total headcount in our generation business by approximately 6,500 from January 1, 2001 through the end of 2005, with approximately 4,500 of the decrease attributable to our disposal of the three Gencos;
- reduce maintenance expenses through increased use of “when needed” maintenance instead of planned maintenance programs; and
- enhance the efficiency of our capital expenditures through improved planning and implementation and through centralized engineering and procurement.

In implementing these initiatives, we aim to reduce our overall operating costs per kWh by approximately 10%-12% in the period from 2001 to 2005 and to otherwise improve our productivity in order to meet the competitive challenge posed by the introduction of the pool market.

Transmission. In our transmission business, we intend to continue implementing our restructuring program to reduce costs and capital expenditures, while increasing the revenues we now earn by providing transmission services. Our major initiatives in this area include:

- the development of a new remote management and control system designed to improve the operating efficiency of our high voltage transmission network;
- the implementation of a new organizational model based on centralized management and decentralized control of operations supported by a SAP management information system that has been operational since mid-2000; and
- the expansion of our activities to include the sale of operation, maintenance and engineering services to third parties who own or use high voltage power systems, including other electric companies, municipal utilities and large industrial plants.

As a result of these initiatives, by 2005, we expect to reduce annual operating costs per TWh in our transmission segment by approximately 11% to 12%, while seeking to avoid or limit declines in revenues, notwithstanding scheduled tariff reductions mandated by the Energy Authority.

Distribution. In our distribution business, we plan to continue focusing on our cost reduction program while investing in key infrastructure in order to build a platform for the supply of multi-utility services to our current base of almost 30 million electricity customers.

- Our cost-cutting program has been supported by an intensive benchmarking program, which has identified a number of opportunities for cost reductions, particularly with regard to personnel costs. Between January 1, 2001 and the end of 2005 we plan to reduce our distribution costs per kWh (excluding amortization and depreciation) by approximately 16%, primarily through a reduction in headcount of approximately 24% of our distribution workforce at the beginning of this period. This target includes approximately 2,000 personnel at the municipal distribution networks we will have to sell pursuant to the consolidation process mandated by the Bersani Decree.
- We intend to reduce investment and maintenance costs associated with management of our network, principally by centralizing and optimizing procurement processes through extensive use of e-business platforms. These initiatives have already enabled us to reduce procurement costs by approximately 20% since 1999, and we expect further savings of approximately 5% to 7% in the next few years.
- We plan to focus a significant portion of our overall investments between 2001 and 2005 on our distribution business, with planned expenditures relating to our distribution network totaling approximately Lit. 16,400 billion during this period. In particular, we intend:
 - to invest approximately Lit. 6,300 billion in improving service quality with the goal of exceeding targets established by the Energy Authority and thereby qualifying to earn performance bonuses established as part of the new regulatory framework. We also believe that these investments can be instrumental in improving customer loyalty and satisfaction, building the basis for cross-selling multi-utility services in the medium term. To improve service quality while reducing costs, we also intend to invest approximately Lit. 330 billion through 2002 in order to establish a national call center system composed by 25 centers integrated in 8 clusters; and
 - to establish system-wide remote metering, in which we plan to invest approximately Lit. 3,600 billion. This project, which is scheduled to start in the second half of 2001 and be completed in 2004, will involve the replacement of approximately 30 million traditional mechanical electricity meters with digital meters incorporating sophisticated technology. We believe that this project will provide us with operating advantages, including greater flexibility in tailoring charges for final customers and lower costs deriving from both the reduced need for physical measurement of actual electricity consumption by our personnel and faster, more precise measurement of actual consumption.

Capitalize on our customer base and assets. We consider our distribution business to be the platform for our multi-utility, multi-service strategy, and we plan to capitalize on our broad electricity customer base, infrastructure, brand name and customer care capabilities to offer Italian consumers a range of utility services, including natural gas and water.

Gas distribution and supply. In the natural gas sector, we plan to offer distribution services to retail customers by acquiring local gas distributors, mainly in urban areas. The sector is highly fragmented, and we expect it to undergo significant consolidation, in which we intend to play a major role. During 2001, we continued our policy of acquiring additional local gas companies with operations in several Italian regions. Together, these acquisitions have provided us with access to an aggregate of approximately 500,000 customers. We intend to continue to grow in gas distribution so as to create a customer base of approximately 2,000,000 customers by 2003.

We expect that our acquisition of other gas companies will be concentrated between 2001 and 2003. The liberalization of the gas market, which is currently expected to occur in 2003, should allow us to continue to build our market share by attracting customers from other suppliers in a free market while reducing the pace of our acquisitions.

The customer base of the companies we seek to acquire overlaps significantly with our electricity customer base. Should we be successful in making further acquisitions, we plan to build on this overlap to take advantage of synergies in network infrastructure deployment and maintenance, as well as in customer care. We also expect to be able to capitalize on economies of scale arising from the terms of our existing agreements to acquire natural gas for our electricity generating activities in order to create value by procuring gas for our newly acquired gas distribution companies at a cost that is significantly lower than the terms previously available to them on a stand-alone basis.

In addition, we offer natural gas to industrial customers through the sales force of Enel Trade.

Water. In the water sector, we plan to offer distribution services mainly to retail customers by acquiring local distributors, participating in local tenders for managing water-related activities and setting up partnerships with local municipalities and distributors. Our pending acquisition of Acquedotto Pugliese, which we hope to complete in 2001, would allow us to reach 850,000 customers representing a total population of approximately 4.5 million, who for the most part are also part of our electricity distribution customer base. A pool of advisors has recently set the price for the acquisition of Acquedotto Pugliese at Lit. 936 billion. The Treasury Ministry has announced its intention to challenge the advisors' determination. In May 2001, we also submitted an offer to acquire Southern Water PLC, a UK water and wastewater utility, which provides water services to 2.2 million of customers and waste water services to 4.4 million customers. We cannot anticipate the outcome of such negotiation.

Value-added services. In the context of our advanced digital metering project, we plan to deploy new networking technology in order to create a complete end-to-end home and office networking infrastructure that will allow us to deliver a wide range of value-added services to both our residential and business customers. These services may include, but are not limited to, monitoring and security of customer homes or offices, as well as the remote control of appliances or equipment. To this end, we signed a research and development agreement in June 2000 with Echelon Corporation, a leader in the development of indoor communications technology and related services, providing for the use of Echelon's network control technology in our digital meter project. We are also working to develop alternative methods of providing value-added services, including our Power Line project for supplying data through electricity lines, and direct cabling in selected urban areas.

Further develop our rapidly growing telecommunications activities. We intend to continue to diversify our revenue base by strengthening our position in the rapidly growing Italian telecommunications sector. WIND, our joint venture with France Telecom, has experienced very rapid growth. Since the beginning of its commercial activities in early 1999, WIND's customer base has grown to approximately 5.1 million customers using approximately 9.2 million lines as of March 31, 2001,

comprising approximately 5.7 million mobile telephone lines, 2.5 million fixed telephone lines and 1 million Internet registered users.

We believe that the support we have provided as one of WIND's shareholders has significantly enhanced the historical and future growth potential of our telecommunication operations. We provided significant financial support to WIND in its start-up phase, and supported WIND's winning bid for one of five UMTS licenses awarded by the Italian government in the last quarter of 2000. In addition, we have leased to WIND its extensive fiber optic backbone and provided assistance in the build-out of its GSM mobile telephone network.

On March 29, 2001, we acquired Infostrada, one of Italy's leading fixed-line telecommunications provider and largest Internet service provider, or ISP. Infostrada's Internet service had approximately 5 million access registered users as of March 31, 2001, while its wholly owned subsidiary Italia Online owns and manages an Internet portal of the same name that led the market in Italy in terms of page views at the same date, according to Nielsen NetRatings. Infostrada is also a leading alternative to Telecom Italia, the incumbent operator, in fixed telephony services, with approximately 3.8 million customers, as of March 31, 2001. WIND and Infostrada currently use different criteria to determine their number of customers. We believe that Infostrada's strengths in the fixed-line and Internet businesses complement WIND's strengths in mobile communications and convergent offerings.

We intend to integrate the operations of WIND and Infostrada with the aim of:

- preserving the growth drivers that have allowed both companies to be successful as start-ups in the Italian telecommunications market;
- integrating and rationalizing their respective sales forces and customer care operations in an effort to achieve cost savings and enhance opportunities for cross-selling a full range of products and services to the combined customer base;
- consolidating Italia Online's leadership position through the development of additional value-added services and content, as well as alternative means of Internet access, including through mobile phones; and
- developing a plan to integrate their respective networks and information technology in order to optimize the use and deployment of infrastructures with the aim of rationalizing overall capital and operating expenditures and accelerating network roll-out.

Selectively implement an international expansion. We believe that:

- the experience of our management in the electricity business;
- our technical expertise; and
- our size and financial strength

constitute a strong platform from which to pursue a focused international expansion.

We are currently focusing our international strategy on the acquisition of stakes in integrated electric utilities or power generating companies in the Mediterranean region and Central Europe. We are also developing a presence in the Middle East and North and South America, through:

- Enelpower S.p.A., our engineering and construction subsidiary, which has entered contracts for the construction or expansion of generation plants with a total capacity of more than 3,000 MW in Greece, Great Britain, Saudi Arabia, Argentina, Brazil, Dubai, Qatar and Oman; and
- E.R.G.A., our subsidiary specializing in energy produced from renewable resources, which recently acquired CHI Energy and Energia Global International, Ltd. (EGI), two power producers specializing in the development of renewable energy resources. CHI Energy has 300 MW of generating capacity in operation in North America. EGI operates plants in Central and South America with a gross installed capacity of 142 MW, which is expected to increase to 246 MW when current construction and development projects are completed.
- Enel F.T.L., our fuel and trading subsidiary, which recently acquired Masfield Coal AG, one of the most active coal trading companies in the international market, with central offices in London and regional branches in Jakarta, Moscow, Madras and Hong Kong.

The Enel Group

Italian Electricity Demand

Demand for electricity in Italy has grown at an average annual rate of approximately 2.7% during the past five years. The following table shows the annual rate of growth in Italy's GDP in real terms and the annual rate of growth in electricity demand for the years indicated.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	Compound Annual Growth Rate 1996- 2000
Growth in real GDP(1).....	1.1%	2.0%	1.8%	1.6%	2.9	1.9%
Growth in electricity demand(2).....	0.7%	3.2%	2.9%	2.3%	4.2%	2.7%

Sources:

- (1) Istat Reports for 1996, 1997, 1998, 1999, 2000 including revisions to certain historical data made in 2001.
(2) Enel, Statistical Data about Energy in Italy, for data through 1998 and data from the *Gestore della Rete* for 1999 and 2000.

Electricity demand grew by 4.2% in 2000, after having grown by 2.3% in 1999. The rate of growth in 1999 was less than the annual rate of growth in 1998 due in part to a slowing of the Italian economy during the early part of 1999. However, the rate of growth in electricity demand during the second half of 1999 was higher than the rate during the first half of the year, and this trend accelerated in 2000, when electricity demand increased by 4.2%. On the basis of available forecasts of expected growth in Italian GDP and the increase in electricity demand recorded in 2000, we currently estimate that demand for electricity will grow at an annual rate of 2.9% in each of 2001 and 2002. In the event that actual GDP growth in Italy is lower than the current forecasts, electricity demand is likely to grow more slowly than our current estimates.

Per capita electricity consumption is lower in Italy than in a number of other leading industrialized countries. According to the *Gestore della Rete*, in 1999, electricity consumption in Italy was 4,638 kWh per capita, compared to an average of 6,010 kWh per capita for the European Union as a whole. As differences in the industrial or commercial and service sectors among countries not related to individual electricity use can distort comparisons of overall per capita production, we prefer to use per capita residential electricity use as our basic comparative measure. The following table compares per

capita residential electricity consumption in Italy with that of other countries in the European Union for 1999, the most recent year for which complete data is available.

	Inhabitants	Residential Consumption	Per Capita Residential Consumption
	(in millions)	(TWh)	(kWh/inhabitants)
France	59.1	127.1	2,151
United Kingdom.....	59.1	110.4	1,868
Germany.....	82.0	131.1	1,598
European Union	375.4	635.5	1,693
Italy	57.6	60.7	1,053
Spain	39.4	45.3	1,150

Source: Enerdata-World Energy database, except for Italy, for which the source is *Gestore della Rete*, Statistical Data about Energy in Italy, 2000.

The penetration of electricity use, or total electricity demand as a percentage of total energy requirements from primary sources, is also lower in Italy than the average for the European Union. The following table compares penetration of electricity use in Italy with that of other countries in the European Union for the years indicated:

	1973	1980	1990	1998
	(percentages)			
France.....	22.0	29.1	38.5	41.6
Germany	29.8	34.2	39.0	39.3
European Union average.....	26.6	31.6	36.9	36.8
Italy	23.0	28.5	33.2	34.8
Spain.....	27.9	33.8	36.5	34.5
U.K.	32.0	34.4	35.2	32.5

Source: Enel. Energy Demand in the World, 1973-1998.

We believe that the current levels of per capita electricity consumption and penetration of electricity use in Italy indicate that demand for electricity is likely to continue to grow, and that for the next two or three years the rate of growth is likely to be greater than that of the European Union on average. We believe that a principal reason per capita electricity consumption and penetration of electricity use are not as high in Italy as the average for the European Union is that in the past the tariff structure established by government regulation discouraged high-volume residential use. You should read “—Regulatory Matters—Electricity Regulation—The new tariff structure” for a more detailed discussion of tariffs.

We expect that any increases in electricity demand that may occur are not likely to result in a need for significant additional installed capacity in Italy in the near term because currently there is sufficient capacity in the Italian electricity system to cover expected growth in demand. The table below shows peak capacity demand, net available capacity at the winter peak load (net of plants in conservation or unavailable due to environmental retrofitting), guaranteed capacity under contract between us and foreign or domestic producers and our reserve margin in the period indicated. The *Gestore della Rete* has not published data relating to 2000. Reserve margin represents the total of net available capacity and guaranteed capacity under contract less peak capacity demand.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(Gigawatts (“GW”), except percentages)			
Peak capacity demand	39.2	41.7	42.6	42.7
Net available capacity	43.7	47.1	48.2	48.5
Guaranteed capacity under contract	6.7	8.0	8.3	9.0
Reserve margin	11.1	13.4	13.9	14.8
As a percentage of peak capacity demand	28.4%	32.2%	32.6%	34.7%

Source: Enel.

Generation

At December 31, 2000, Enel Produzione and our four other generating companies (the three Gencos and ERGA, which specializes in energy produced from renewable resources), operated a total of 746 generating plants. Our generating facilities include thermal plants, which burn fossil fuels, hydroelectric plants, geothermal plants and other facilities that generate electricity from renewable resources. At December 31, 2000, these plants had a total gross installed capacity of 58.9 GW, representing approximately 76% of the total gross installed capacity in Italy. Our net electricity production in 2000 was 182.5 TWh, having increased by 2.1% from 1999 and representing 69.6% of Italian production during the year.

The following table shows the gross installed capacity at December 31, 2000 and the net production in 2000 for the Italian electricity sector as a whole. Independent power producers include industrial companies that produce electricity for their own use and for sale to third parties. Imports include electricity purchased from foreign producers on the spot market or under annual or long-term contracts. Pumped storage consumption refers to the use of electricity by pumped storage hydroelectric plants to pump water to elevated areas for use at a later time to generate electricity.

	<u>At December 31, 2000</u>	<u>2000</u>	
	<u>Gross Installed Capacity</u>	<u>Net Production</u>	<u>Percentage of Italian Production</u>
	(GW)	(TWh)	
Enel.....	58.9	182.5	69.6%
Independent power producers	15.9	69.4	26.4
Municipal utilities	2.9	<u>10.5</u>	<u>4.0</u>
Total gross installed capacity and net production in Italy	<u>77.7</u>	<u>262.4</u>	<u>100.0%</u>
Total net imports into Italy		<u>44.3</u>	
Total pumped storage consumption in Italy		9.0	
Total demand in Italy		<u>297.7</u>	

Source: ENEL's estimates, based on data provided by *Gestore della Rete*.

You should read “—Competition in the Electricity Markets” for a more detailed discussion of the electricity markets in Italy.

The following table shows certain statistics about our generating facilities, broken down by type of plant at December 31, 2000 and for the year 2000. The weighted average age of the plants does not

take into account refurbishments or upgrades after initial construction. The forced outage factor represents the amount of electricity that was not produced during the period because of unplanned outages, expressed as a percentage of the maximum theoretical amount of electricity that could have been produced during the period.

	At December 31, 2000		2000		
	Gross Installed Capacity	Weighted Average Age of Plant	Net Production	Percentage of our Net Production	Forced Outage Factor
	(GW)	(years)	(GWh)		(percent)
Thermal.....	41.3	20	141,391	77.5%	3.8%
Hydroelectric	16.9	39	36,692	20.1	3.0
Geothermal and other renewable	0.7	<u>10</u>	<u>4,444</u>	<u>2.4</u>	<u>5.6</u>
Total.....	<u>58.9</u>		<u>182,527</u>	<u>100.0%</u>	

Disposal of the Gencos

In order to increase competition in the Italian electricity generation market, the Bersani Decree provides that after January 1, 2003 no single company or group may generate or import in aggregate more than 50% of the total amount of electricity generated and imported in Italy. Accordingly, we must dispose of not less than 15,000 MW of our net generating capacity by that date in order to reduce our market share to an allowable level. In August 1999, the Italian government approved our plan to dispose of plants representing approximately 27% of our generating capacity (15,057 MW of our net installed capacity, which is equivalent to 16,067 MW of our gross installed capacity).

As part of this plan, in October 1999 we transferred to the Gencos the generating plants we selected for disposal, together with the management teams and employees needed to operate these plants. In October 2000, the process of the sale of Elettrogen, the first of the three Gencos, began. We have chosen to structure the sale of Elettrogen as a multi-step auction, with the final buyer being selected on the basis of price, as well as certain other factors, including a business plan. It is expected that the sale will be completed during the second half of 2001.

In an effort to optimize the disposal process, attract the maximum number of potential investors and maximize our proceeds, we intend to sell the three Gencos sequentially.

The governmental decree approving the disposal plan and the implementing regulations issued by the Treasury Ministry and the Industry Ministry require us to dispose of Elettrogen and Interpower through direct negotiations with potential acquirors. We may dispose of Eurogen through a combination of direct negotiations and a public offering of its shares. No single acquiror, acting either jointly or independently, may acquire control of more than one of the three companies.

The decree and implementing regulations also require that the new owners of the companies agree:

- to convert plants that are subject to our approved plan to combined cycle technology;
- not to transfer their interests in any Gencos or its assets for a specified period of time; and
- not to implement collective dismissals of the Gencos' employees.

In addition, certain limitations have been placed on the ownership by public entities of the Gencos' share capital. Please refer to “—Regulatory Matters—Electricity Regulation” for a more detailed description of this process.

The following table provides certain selected operating and financial data for each of the Gencos at December 31, 2000 and for the year then ended. The financial data included in the table has been prepared on the basis of Italian GAAP and has not been audited.

	<u>Eurogen</u>	<u>Elettrogen</u>	<u>Interpower</u>	<u>Total Gencos</u>
<u>Operating Data¹</u>				
Gross installed capacity of all plants (MW).....	7,386	5,720	2,961	16,067
Gross installed capacity of thermal plants (MW)	6,620	4,706	2,898	14,224
Gross installed capacity of hydroelectric plants (MW) ..	766	1,014	63	1,843
Net in production 2000 (GWh)	22,470	19,636	7,576	49,682
Number of employees.....	2,013	1,633	1,039	4,685
Total number of plants.....	9	8	4	21
Number of thermal plants	6	5	3	14
Number of hydroelectric plants.....	46	24	17	87
<u>Financial Data²</u> (in billions)				
Operating revenues.....	Lit. 2,905	Lit. 2,451	Lit. 991	Lit. 6,347
Operating income.....	Lit. 333	Lit. 400	Lit. 233	Lit. 966
Net income	Lit. 74	Lit. 95	Lit. 90	Lit. 259
Total net assets at December 31, 2000	Lit. 2,467	Lit. 2,725	Lit. 934	Lit. 6,126

(1) At December 31, 2000 unless otherwise indicated.

(2) For the year ended December 31, 2000 unless otherwise indicated.

The generation assets we transferred to the Gencos broadly reflect the technological features, mix of fuels consumed and geographical distribution of the generation assets that we will retain. We transferred plants representing 9,460 MW of the 14,200 MW of thermal production capacity covered by our approved plan to convert fuel burning plants to combined cycle technology. In total, we transferred to the three companies an aggregate of approximately 5,100 employees, Lit. 8,200 billion of assets and Lit. 6,400 billion of liabilities.

We plan to dispose of relatively more base load plants, which tend to operate on a continuous basis, than mid-merit plants, which we use principally to cover increases in demand for electricity during higher demand periods. As a result, our share of the total amount of electricity generated in Italy will decline by more than the percentage decline in our total gross installed capacity resulting from the disposals. Following the completion of our disposal of the three Gencos, we expect our gross installed capacity will decrease to approximately 52% of total Italian gross installed capacity from its current level of approximately 76% and that we will generate approximately 39% of the total amount of electricity generated and imported in Italy in 2003.

In addition to our required disposal of the Gencos, the Antitrust Authority conditioned its approval of our acquisition of Infostrada on our disposal of an additional 5,500 MW of generating capacity within 90 days of the sale of the last Genco. We have appealed the decision of the Antitrust Authority before the Administrative Court of Lazio. Were we to have to dispose of additional generating capacity as required by the Antitrust Authority, our gross installed capacity and our share of overall Italian electricity production would decrease further.

In addition to the disposal of the generating capacity discussed above, in June 2001, we sold to the Regional Authority of Valle d'Aosta all of our hydroelectric power plants in that region, having an aggregate gross capacity of 781 MW. See “—Hydroelectric production” for further information. We are also evaluating the possible sale of some of our hydroelectric plants in the province of Bolzano to the provincial authorities.

Outlook and capital investments

The Bersani Decree contains provisions designed to promote the generation and consumption of electricity from renewable resources by requiring electricity producers to supply specified volumes of this type of electricity to the market. See “—Regulatory Matters—Electricity Regulation—The new regulatory framework—Promotion of renewable resources” for a description of these rules. To comply with these regulatory requirements, we can either produce electricity from qualifying renewable resources ourselves, or we can purchase “green certificates” from other qualified producers or the *Gestore della Rete*. Based on our production for 2000, the Bersani Decree would have required us to provide approximately 2.7 TWh of electricity from renewable resources. Our current capital investment plan provides for an aggregate increase in our gross installed capacity for production from renewable resources by January 1, 2002 of approximately 600 MW (220 MW from geothermal and other renewable resources and 380 MW from hydroelectric resources). As a result, we currently expect to produce 1.3 TWh of electricity from qualifying renewable resource capacity in 2002, the first year the requirements apply. We expect to purchase “green certificates” from the *Gestore della Rete* or other qualifying producers in order to meet the production thresholds established by these regulatory requirements.

We have no plans to construct new plants or add significant amounts of generating capacity, other than from renewable resources, in the near term. Instead, we have focused our investment plans on our existing generating plants. Specifically, we intend:

- to convert our thermal plants to combined cycle technology where practicable; and
- to upgrade the environmental performance of our thermal plants.

You should read “—Thermal production” for a more detailed discussion of these plans.

In 1997, we began to implement a strategic plan designed to improve operating efficiency in our generation activities with the goal of reducing costs to the levels of the most efficient European and American generators of electricity. In implementing the plan, we have rationalized our allocation of capital expenditures by, among other things, switching to “when needed” maintenance from planned maintenance programs. We have also focused on reducing our fuel costs by improving sourcing, logistics and the mix of fuels we consume.

Thermal production

At December 31, 2000, we owned 58 thermal plants with an aggregate gross installed capacity of 41,3 GW, or 70.0% of our gross installed capacity at that date. These plants generated net production of 141,391 GWh in 2000, or 77.5% of our net production for the year.

All our thermal plants consist of two or more generating units and most have a standardized design, with the generating units being of one of three types: steam-condensing units, gas turbine units and internal combustion units. Steam-condensing units consist of closed-cycle plants in which water is transformed into steam and used in a turbine to generate electricity. Steam is turned back into water through a cooling process using sea or river water. Gas-turbine units burn natural gas to drive a turbine

and generate electricity. Internal combustion units use diesel engines to generate electricity. At December 31, 2000, approximately 88% of the gross installed capacity of our thermal plants consisted of steam-condensing units and approximately 12% of that capacity was represented by gas-turbine units. Internal combustion units represented less than 1% of the gross installed capacity of our thermal plants.

Each of our thermal generating units is designed to operate using one or more kinds of fuel. Single fuel units use either petroleum products or coal but not both, dual fuel units can use petroleum products and either natural gas or coal, while triple fuel units can use petroleum products, coal and either natural gas, orimulsion or lignite. In both 1999 and 2000, single fuel units, the vast majority of which are petroleum powered, generated approximately 50% of our net production from thermal plants and represented approximately 35% of the gross installed capacity of these plants at year end. Dual fuel units accounted for approximately 40% of our net production from thermal plants and approximately 55% of our gross installed capacity of these plants at December 31, 2000. Triple fuel plants accounted for the remaining approximately 10% of our net production and gross installed capacity of thermal plants.

The average thermal efficiency, or the ratio of useful energy produced to the energy consumed to produce it, of our thermal plants improved by more than two percentage points in the period from 1996 through December 31, 2000. Currently, our average thermal efficiency is approximately 38% overall.

In 1997, we began converting a number of our conventional thermal plants into combined cycle plants, generally by installing one or more gas turbines and replacing conventional boilers with heat recovery steam boilers used to drive existing steam turbines. Converting plants to combined cycle generation increases efficiency and reduces emissions. We plan for our combined cycle plants to have an expected average thermal efficiency of 56%.

Our original plan for combined cycle conversions covered a total of 14,200 MW of gross installed capacity, of which approximately 7,000 MW is to be converted by 2003 and the remaining 7,200 MW is to be converted by 2008. Under our plan to dispose of the three Gencos in order to comply with the Bersani Decree, we will dispose of 9,460 MW of the 14,200 MW of gross installed capacity scheduled to be converted to combined cycle technology. We currently estimate the average costs of conversion over the course of the project to be approximately Lit. 550 million per MW of gross installed capacity, or a total through 2005 of approximately Lit. 3,000 billion. At December 31, 2001, we had spent approximately Lit. 500 billion of this total, not including the plants now owned by the Gencos.

In addition to our combined cycle conversion program, we are planning to upgrade an additional 2,800 MW of gross installed capacity by:

- Converting a fuel oil plant to orimulsion technology; and
- Changing the coal-burning technology of an existing coal plant.

We have an ongoing program of refurbishment and maintenance of our plants. We invested an average of Lit. 80 billion during each of the last three years in this program and we plan to invest a similar amount in each of the next five years.

We have made significant investments since 1990 to improve the environmental standards of our thermal plants and to comply with the emission thresholds established by applicable environmental laws and regulations. These measures have included installing desulfurization and denitrogenation units and upgrading burners and units for the treatment of waste water and ash resulting from the electricity generation process. Installation of desulfurization and denitrogenation units increases our flexibility to

use different types of fuel, including lower-cost fuels such as high sulfur fuel oil and orimulsion, while maintaining compliance with emission restrictions.

Our environmental capital expenditures for conventional thermal generation, including those relating to plants now owned by the Gencos, have amounted to approximately Lit. 800 billion in each of the last five years. These amounts have represented an increasing percentage of our total capital investments related to generation. You should read “—Regulatory Matters—Environmental Matters” for a discussion of the environmental laws and regulations affecting our generation operations.

We operate a number of thermal plants located in state-owned coastal or fluvial areas pursuant to concessions from the Italian government. These concessions, for which we pay an annual fee of approximately Lit. 8 billion, expire at various times through 2020, depending on their individual terms. Should any of these concessions expire without being renewed, we would be required to transfer to the government the real estate assets and permanent fixtures that are located in the areas under concession, which have an aggregate net value of Lit. 138 billion.

Hydroelectric production

At December 31, 2000, we had 648 hydroelectric plants with an aggregate gross installed capacity of 16.9 GW, or 28.7% of our gross installed capacity at that date. These plants generated net production of 36,692 GWh in 2000, or 20.1% of our net production for the year.

We classify our hydroelectric plants with reservoirs by fill-in rate, which represents the time required for a plant’s reservoir to fill from empty based on normal water flow. Pondage plants have fill-in rates ranging from two to 400 hours and reservoir plants have fill-in rates exceeding 400 hours. We also have run-of-river and pumped storage hydroelectric plants.

In 2000, pondage plants generated approximately 37% of our net hydroelectric production and represented approximately 25% of our gross installed hydroelectric generation capacity at year end, while run-of-river plants accounted for approximately 25% of our net production from hydroelectric plants and approximately 15% of our gross installed hydroelectric generating capacity. Pumped storage plants generated approximately 18% of our net hydroelectric production in 2000, and represented approximately 40% of our gross installed hydroelectric generating capacity, with reservoir plants accounting for the remaining approximately 20% of both our net hydroelectric production and our gross installed hydroelectric capacity in the same periods.

We invested an average of Lit. 100 billion per year during each of the last three years to refurbish our hydroelectric plants and we plan to invest similar amounts in the next five years.

Our hydroelectric plants generate electricity from water streams in the public domain under licenses from the Italian government. These licenses expire in 2029 and are subject to renewal. Under the Bersani Decree, the Regional Authority of Valle d’Aosta and the Provincial Authorities of Trento and Bolzano, which enjoy special autonomous status under Italian law, may impose earlier license termination dates for hydroelectric plants in these areas, and, if any of these licenses expire without being renewed, we will have to transfer the affected hydroelectric plants to the governmental authority granting the license. The Provincial Authorities of Trento and Bolzano have set a termination date for the licenses they have granted of 2010. Our hydroelectric plants in these provinces have an aggregate gross installed capacity of 1,990 MW. In June 2001, we sold to the Regional Authority of Valle d’Aosta our hydroelectric plants in that region, having an aggregate gross installed capacity of 781 MW, together with a 49% interest in electricity distributor Deval S.p.A., for a total consideration of Lit. 1, 650 billion.

Production from geothermal and other renewable resources

Through our ERGA S.p.A. subsidiary, we are one of the world's leading producers of renewable energy, and one of the few companies that combines significant experience in multiple technologies, including geothermal, wind and solar energy, with its own engineering and project development capabilities. ERGA also operates substantially all of our smaller hydroelectric plants. At December 31, 2000, we had 33 geothermal power plants consisting of a total of 41 generating units with an aggregate installed capacity of 641 MW. In 2000, we increased our gross installed geothermal capacity by 20 MW and our geothermal net production to 4,415 GWh, or 2.4% of our net production for the year.

We also generate electricity from other forms of renewable resources, including solar photovoltaic systems and wind energy. At December 31, 2000, we operated four wind farms with an aggregate gross installed capacity of 24 MW and three photovoltaic solar grid connected power plants with an aggregate gross installed capacity of 3.5 MW. Together, these plants accounted for 29 GWh of our net production in 2000.

At December 31, 2000, ERGA had 16 projects under construction, 71 projects under development and evaluations in process on more than 175 additional potential sites. In addition to its generating facilities, ERGA operates geothermal drilling units, service shops and a fully equipped laboratory, all of which provide services to the renewable energy industry, including several of ERGA's competitors.

In December 2000, ERGA expanded its geographic reach and scope by acquiring CHI Energy, an independent power producer specializing in renewable energy sources with 79 plants in North America, including biomass, hydroelectric and wind-powered facilities, as well as experience in the trading of environmental credits, for total consideration of Lit. 385 billion. CHI Energy's net installed capacity was 261 MW at the end of 2000, of which 256 MW consisted of hydroelectric plants and 5 MW consisted of wind plants. An additional 53 MW in wind plants are currently under development.

In May 2001, ERGA acquired Energia Global International, Ltd. (EGI), a power producer specializing in renewable energy sources for total consideration of approximately Lit. 200 billion. EGI operates plants in Central and South America with a gross installed capacity of 142 MW, which is expected to increase to 246 MW when current construction and development projects are completed.

Most of ERGA's revenues come from long-term sale agreements under the CIP 6 regime and from sales at regulated tariffs of energy produced by its small hydroelectric plants. ERGA has also begun to sell electricity on the free market through Enel Trade. We expect that the demand for energy produced from renewable resources will increase as a result of the provisions in the Bersani Decree requiring producers to supply a specified amount of electricity generated from new renewable resources, as well as the introduction of a regime of tradeable "green certificates" to be issued by the *Gestore della Rete*, for which a number of ERGA's projects are expected to qualify.

Discontinued nuclear operations

We have not generated electricity from nuclear power since 1988, following a 1987 national referendum in which the Italian electorate expressed support for ending the use of nuclear power. We have no plans to recommence generating electricity using nuclear power. As required by the Bersani Decree, on November 1, 1999, we transferred our discontinued nuclear operations to a wholly owned special purpose subsidiary, So.g.i.n. S.p.A. The assets and liabilities transferred to So.g.i.n. consisted primarily of Lit. 896 billion in receivables for Equalization Fund contributions, Lit. 717 billion in liquid assets and Lit. 1,543 billion of provisions for risks and charges, with the total of net assets transferred amounting to Lit. 30 billion. We transferred to the Treasury Ministry all the shares of So.g.i.n. free of

charge on November 3, 2000, as provided by the Bersani Decree. The transfer of our discontinued nuclear operations and related arrangements are described in more detail in “—Regulatory Matters—Environmental Matters—Discontinued nuclear operations”.

Fuel

We use fuel oil, natural gas, coal, orimulsion and other fuels in operating our thermal generation plants; we do not use significant amounts of fuel in operating our hydroelectric, geothermal or other renewable resource plants. Italy has small reserves of fossil fuels. As a consequence, we depend on imported oil, natural gas and coal for a large proportion of our energy needs. We attempt to maintain secure and flexible fuel supplies by diversifying our geographic sources of fuel and the types of fuel we purchase.

In 2000, our fuel costs, including fuel transport, were Lit.10,929 billion and constituted 27.7% of our total operating expenses. We spent 47% of this amount on fuel oil and diesel fuel, 44% on natural gas, 7% on coal and 2% on orimulsion.

Prior to July 1997, the electricity tariff structure did not directly affect our choice of fuels, as it included a thermal reimbursement element through which our actual fuel costs were effectively passed on to electricity customers. However, since July 1997, the tariff structure has contained an energy reimbursement component that is calculated with reference to an index of weighted average fuel prices and a consumption index based on the efficiencies expected to be obtained from the fuels comprising the fuel price index. Accordingly, we have sought to use a mix of fuels less expensive in the aggregate than the fuels comprising the weighted index and to generate energy more efficiently than the efficiency levels represented by the heat rate used in the Energy Authority’s consumption index. This new tariff structure also includes incentives to reduce production from thermal plants and to increase the use of renewable resources.

Once the pool market is introduced, the tariff and fuel cost reimbursement structure will be replaced by a market price for electricity generation, and we will have an incentive to reduce all costs, including fuel costs, to compete on the market. You should read “—Regulatory Matters—Electricity Regulation” for a discussion of the new and former tariff structures.

The following table provides a breakdown of our net electricity production for the periods indicated by primary energy source utilized. “Other” thermal energy sources include lignite, light distillate and derived gases.

Year ended December 31,								
	1997		1998		1999		2000	
	Net electricity produced	Percentage of total	Net electricity produced	Percentage of total	Net electricity produced	Percentage of total	Net electricity produced	Percentage of total
	(GWh)		(GWh)		(GWh)		(GWh)	
Oil	92,159	52.0%	84,413	47.0%	66,995	37.5%	58,960	32.3%
Natural gas	28,964	16.3	33,710	18.8	43,922	24.6	52,148	28.6
Coal and orimulsion.....	18,618	10.5	22,836	12.8	26,006	14.5	29,919	16.4
Other	<u>178</u>	<u>0.1</u>	<u>60</u>	<u>0.0</u>	<u>23</u>	<u>0.0</u>	<u>364</u>	<u>0.2</u>
Total thermal	139,919	78.9	141,019	78.6	136,946	76.6	141,391	77.5
Hydroelectric	33,595	19.0	34,486	19.2	37,714	21.6	36,692	20.1
Geothermal	3,672	2.1	3,958	2.2	4,128	2.3	4,415	2.4
Wind and photovoltaic.....	<u>15</u>	<u>0.0</u>	<u>21</u>	<u>0.0</u>	<u>25</u>	<u>0.0</u>	<u>29</u>	<u>0.0</u>
Total	<u>177,201</u>	<u>100.0%</u>	<u>179,484</u>	<u>100.0%</u>	<u>178,813</u>	<u>100.0%</u>	<u>182,527</u>	<u>100.0%</u>

Source: Enel.

In 2000, the approximate percentages of our electricity produced by the thermal generation represented by each of the following fuels was approximately:

- 37 % natural gas;
- 42% fuel oil; and
- 21% coal, orimulsion and other fuels.

We estimate that by 2005, these percentages will be approximately:

- 52% natural gas;
- 6% fuel oil; and
- 42% coal, orimulsion and other fuels.

Our policy is to diversify our sources of fuel supplies and to increase our use of less expensive fuels, such as high sulfur fuel oil or orimulsion, as well as fuels that have less impact on the environment when consumed, such as natural gas. However, generation using high sulfur fuel oil and orimulsion generally results in higher emissions levels compared to those other fuels. Our ability to increase use of these fuels is dependent on our ability to comply with restrictions on emissions established by national and European Union authorities.

In January 1999, the Italian government introduced a carbon tax based on fossil fuel consumption in accordance with applicable European Union directives. Under the current Italian implementing

legislation, the amount of the tax was initially scheduled to increase on an annual basis from 1999 through 2005, but has been frozen for the years 2000 and 2001 at the level for 1999. The legislation also establishes the possibility of review or cancellation of the tax if other EU member states have not adopted similar measures by 2001. On the basis of current forecasts of future fuel prices, we believe that application of the carbon tax as currently formulated could have a significant impact on the economic viability of our oil-fired plants by the year 2005, should the tax rates then reach their maximum levels. As part of an initiative to address the impact of the carbon tax, we have proposed that the Italian government adopt a different method for calculating the tax which would apply an equal amount of tax per unit of CO₂ output, without regard for the type of fuel used to produce the energy in question. We believe that such a policy would produce the targeted reductions in CO₂ emissions without creating unequal burdens on certain types of generating facilities, particularly oil fired and baseload plants.

We manage our fuel supply by entering into long-term and medium-term contracts for base quantities and supplementing these contracts with purchases of fuel on spot markets both in Italy and abroad. Our long-term fuel contracts, primarily for the purchase of fuel oil and natural gas, require us to pay an aggregate of approximately Lit. 4,329 billion per year in each of the next four years, based on current prices.

Since June 2000, our subsidiary Enel Fuel Trade and Logistics (Enel F.T.L.) S.p.A. has been responsible for the purchase, sale, exchange and trading of fuel for all of our generating operations, including the Gencos. Enel F.T.L. also engages in a limited amount of fuel trading, as well as the supply and development of related logistical services. We expect that synergies provided by bringing together active market trading and the supply function will further benefit both activities, leading to new business opportunities both in Italy and abroad.

Fuel oil

We are among the world's largest purchasers of fuel oil. The following table shows the amount of fuel oil we purchased from domestic and foreign suppliers in each of the periods indicated. Domestic suppliers include suppliers whose headquarters are in Italy, including Agip, a division of the Italian state-controlled energy group Eni S.p.A., while foreign suppliers include suppliers and refiners outside of Italy and traders of primarily non-Italian sources of oil.

	Year ended December 31,			
	1997	1998	1999	2000
	(in millions of tons)			
Domestic suppliers	5.6	6.6	6.1	4.1
Foreign suppliers	<u>14.6</u>	<u>12.6</u>	<u>9.2</u>	<u>9.5</u>
Total fuel oil purchased.....	<u>20.2</u>	<u>19.2</u>	<u>15.3</u>	<u>13.6</u>

As of December 31, 2000, we purchased approximately 44% of our fuel oil on the spot market, approximately 30% under contracts ranging in term from one to twelve months and approximately 26% under multi-year contracts. All purchases made on the basis of term contracts are indexed to market prices.

Historically, we have also been one of the world's largest purchasers of low sulfur fuel oil, which produces lower emissions when burned, but is more expensive than most other fuels. As we have upgraded the environmental performance of our plants, we have been able to increase the proportion of less expensive high sulfur fuel oil that we burn, while at the same time complying with more stringent

emission limits. The following table shows the amounts of fuel oil with low, mid and high sulfur content that we purchased in each of the periods indicated.

	Year ended December 31,			
	1997	1998	1999	2000
Fuel oil purchased	(in millions of tons)			
Low sulfur.....	4.8	5.4	3.9	3.7
Mid sulfur.....	14.7	11.5	8.3	9.1
High sulfur.....	<u>0.7</u>	<u>2.3</u>	<u>3.1</u>	<u>0.8</u>
Total.....	<u>20.2</u>	<u>19.2</u>	<u>15.3</u>	<u>13.6</u>

Natural gas

We purchase most of our natural gas under long-term, take-or-pay contracts. The price of natural gas under these contracts is generally tied to market prices of fuel oil. In 2000, we purchased 13.2 billion cubic meters of natural gas. Snam S.p.A., the main Italian gas supplier and transporter and a subsidiary of Eni S.p.A., supplied approximately 54% of this natural gas.

In accordance with our strategy of producing more electricity from natural gas, the share of our total fuel requirements represented by natural gas increased from 20.7% in 1997 to 33.5% in 2000. To meet our increased need for gas, we purchased larger volumes under our supply contract with Sonatrach, the Algerian gas producer, and made larger purchases from Snam. We obtained approximately 29% of the natural gas we purchased in 2000 pursuant to our Algerian gas contract.

In 1992, we entered into a 20-year take-or-pay contract with NLNG, a Nigerian joint venture, for the supply of 3.5 billion cubic meters of liquified natural gas per year, commencing in October 1999. However, due to environmental concerns, a once-planned Italian regasification facility has never been constructed. As a result, we are unable to import liquified natural gas, and instead, in 1997, entered into a swap agreement with Gaz de France and related transportation arrangements with Snam whereby Gaz de France takes the liquified natural gas supplied by NLNG under the contract and provides us with equivalent volume of non-liquified gas. You should read “—Regulatory Matters—Electricity Regulation—The new tariff structure—Stranded costs” for a discussion of current regulations providing for the reimbursement to us of part of the cost of the NLNG contract.

In 2000, approximately 37% of the electricity we produced by thermal generation was generated using natural gas. We plan to increase this percentage to approximately 52% by 2005, as the result of, among other factors, our combined cycle conversion program and the greater environmental acceptance of natural gas.

Coal and orimulsion

In 2000, our net production of electricity from coal and orimulsion was approximately 31.4 TWh, compared to a total of 26.0 TWh in 1999. We purchased 10.4 million tons of coal in 2000, with virtually all of it being imported, principally from South Africa, South America, the Far East and Eastern Europe.

We have increased our use of coal and oilmulsion over the past several years because price trends made them an attractive alternative to fuel oil.

Purchased power

We purchase power from domestic and foreign producers to fulfill our legal and regulatory obligations, to diversify our sources of electricity and to reduce our costs.

Since 1992, Regulation 6/92 of the *Comitato Interministeriale Prezzi*, an Italian governmental committee, required us to purchase all of the production of domestic producers of electricity that use renewable resources, or CIP 6 Producers, provided that the related production capacity had been constructed with our prior approval. We have made our purchases from CIP 6 Producers under a standard 15-year contract established by a 1992 ministerial decree. This contract has required us to purchase all of this capacity at a price equal to our avoided cost, including the avoided cost of production (plant operations and maintenance) and fuel, plus certain incentives for the first eight years of this contract.

In order to increase the volume of electricity available on the free market, the Ministry of Industry issued a decree in November 2000 that transferred all energy produced from renewable sources under the CIP 6 regime to the *Gestore della Rete* as of January 1, 2001. The *Gestore della Rete* is in turn making this energy available for sale to Eligible Customers in the free market.

We purchase power from outside Italy through annual and long-term electricity supply contracts and on the spot market. Our long-term purchase contracts include contracts entered into to secure electricity supplies after we stopped generating electricity from nuclear power in 1988.

The table below sets forth the amount of electricity imported in Italy under long-term and annual contracts and by spot purchases during each of the years in the period indicated.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(TWh)			
Long-term contracts.....	30.5	30.2	30.9	29.5
Annual contracts	4.0	6.6	6.6	9.5
Spot purchases	2.7	1.9	3.1	2.7
Net imports (exports) from electricity exchanges.....	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total imports	<u>37.4</u>	<u>38.8</u>	<u>40.7</u>	<u>42.0</u>

Source: Enel.

For the year 2000, the *Gestore della Rete* has only published the figure for the total volume of imports of electricity during the year, which equaled 44.3. TWh.

The Italian electricity grid is interconnected to foreign networks through 15 international transmission lines. We believe these lines are currently operating at full capacity. In 2000, we used approximately 50% of this interconnection capacity to import electricity under long-term import contracts that we entered into prior to February 19, 1997. The remaining 50% of the interconnection capacity was made available for sales to Eligible Customers.

In order to increase competition in the market for imported energy, the Energy Authority has established that for 2001 no single importer may use more than 5% of the total interconnection capacity of the Italian network or, if demand for imports from any given country exceeds the interconnection capacity with that country, 10% of that interconnection capacity, in both cases excluding from the calculation capacity covered by long-term contracts in force at February 19, 1997. You should read “—

Regulatory Matters—Electricity Regulation—The new tariff structure” for a discussion of these rules and their effect on us.

Under the new electricity market framework, after the Single Buyer becomes operational, we may continue to purchase power from third parties inside and outside Italy through Enel Trade, which acts as our supplier to Eligible Customers.

Transmission

Through Terna, we continue to own substantially all of the Italian national transmission grid. We use the term “transmission” to refer to the transportation 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 transmission system in Italy is undergoing significant changes as a result of the Bersani Decree. You should read “—Regulatory Matters—Electricity Regulation” for a more detailed discussion of these changes. As contemplated by the Bersani Decree:

- In June 1999, the Industry Ministry issued a decree formally defining the Italian national transmission grid. The decree determined all of our 380 kV and 220 kV transmission lines and approximately 50% of our 150 kV and 132 kV transmission lines to be part of the national transmission grid.
- In August 1999, we transferred dispatching and national grid management and related assets and liabilities to a wholly owned subsidiary called the *Gestore della Rete*.
- In April 2000, we transferred the shares of the *Gestore della Rete* to the Treasury free of charge.

Under the Bersani Decree, owners of the various assets that comprise the national transmission grid, including Terna, operate and maintain those assets pursuant to guidelines issued by the *Gestore della Rete*. We expect Terna and the *Gestore della Rete* to enter into a service contract relating to the operation of the transmission grid and the compensation to be paid Terna in the second half of 2001. The general framework of the contract has been established by governmental decree on December 22, 2000, and will provide for the following arrangements:

<u>Gestore della Rete</u>	<u>Terna</u>
<ul style="list-style-type: none"> Is responsible for safety, reliability and efficiency of transmission network Manages power flows Approves network maintenance Determines network upgrades Evaluates third-party connection requirements 	<ul style="list-style-type: none"> Owens and operates the transmission network under the terms of the service contract Operates through a remotely controlled system Executes maintenance instructions Executes network upgrades

Terna earns revenue from a fee per kWh transported that distributors and suppliers pay to us through the *Gestore della Rete*. The Energy Authority determines that fee, which is designed to cover our operating expenses, depreciation and a specified rate of return on our assets.

The following table provides certain data about our transmission network as of December 31, 2000.

<u>Type of facility</u>	<u>Number</u>	<u>Length (km)</u>
Primary transformer stations.....	261	—
Transformers	548	—
Busbar connections	3,588	—
380kV lines	206	9,768
220kV lines	346	10,344
150kV and 135kV lines	1,203	17,104
Total lines	1,755	37,216

In 2000, we put 114 km of new transmission lines into service, together with 13 new or repowered 380 kV and 150 kV transformer stations, representing an aggregate increase in transformer capacity of 810 MVA.

Our transmission network is connected to the distribution network through 261 primary transformer stations, typically transforming electricity from 380/220 kV to 150/132 kV.

Our transmission lines make use of rights of way granted by local authorities in areas where the facilities are located. In addition, we have rights of eminent domain over private property. We are required to compensate landowners for any exercise of these rights.

Our transmission network also connects the Italian electricity grid to the grids of neighboring countries through six 380 kV international lines and nine 220 kV international lines. We are currently constructing a 400 kV direct current transmission line with 500 MW capacity to Greece. This line, which we expect to be operational in November 2001, will be 207 km long, with 163 km of submarine cable. We expect the aggregate capital expenditure for the project to be approximately Lit. 653 billion, of which our share is Lit. 500 billion and Athens Public Power Corporation, the Greek state-owned electricity utility, is providing the balance. We have spent approximately Lit. 424 billion of the total as of December

31, 2000. The European Union has committed structural adjustment funds to reimburse the parties for 40% of the aggregate capital expenditures relating to the project.

The regulated distribution fees that Terna earns are also based on the “availability” of its transmission network. The following table shows the “availability” reported for each of the periods indicated.

	Year ended December 31,			
	1997	1998	1999	2000
Network availability.....	97.7%	98.1%	98.0%	97.8%

Source: Enel.

In 1998, we began to implement a program aimed at reducing the operating costs of and capital expenditures on our electricity transmission system. This program is focused on rationalizing the operations and maintenance of our transmission lines and transformer stations, simplifying technical specifications, reducing our personnel costs and the purchasing costs of major components, and reviewing our project planning and capital expenditure programs. In part as a result of this program, operating costs in our transmission segment declined by 5.0% with regard to third party supplies and services and 16.0% with regard to personnel in 2000 as compared to 1999, while capital expenditures, excluding those related to the construction of the international line with Greece, declined to Lit. 257 billion in 2000 from Lit. 327 billion in 1999. The headcount of our transmission segment decreased from 4,003 at December 31, 1997 to 3,001 at December 31, 2000.

We intend to continue to reduce operating costs through the ongoing implementation of this program, the development of a new remotely managed and controlled system, the full deployment of a new organizational structure based on centralized management, and of a SAP management information system.

To diversify the revenue base of our transmission segment, we have begun to sell maintenance, long-distance metering and monitoring and related engineering and operating services to third parties which own or utilize high voltage power systems, including other electric companies, municipal utilities and large industrial plants. We also intend to offer these services to customers outside of Italy.

Terna recently entered into a long-term contract with Enel Distribuzione pursuant to which it assumed responsibility for the operation and maintenance beginning in June 2001, of approximately 21,000 km of high voltage lines that are part of Enel Distribuzione’s network. We are also developing plans for the installation of relay stations owned by WIND (and possibly other telecommunications providers) on certain of our high voltage transmission pylons.

Distribution and Sales to Regulated Market

We own and operate the principal electricity distribution network in Italy. We use the term “distribution” to refer to the transport of electricity from the transmission network to the customer using the electricity. As required by the Bersani Decree, we transferred our distribution assets and operations to Enel Distribuzione, our wholly owned subsidiary, in October 1999. Enel Distribuzione’s principal responsibilities are operating and maintaining our distribution network and supplying electricity to the regulated market.

We have focused on reducing operating costs in our distribution and supply operations, using employees more efficiently and reducing total employee numbers. Between December 31, 1997 and

December 31, 2000, we reduced the total headcount in our distribution segment by approximately 19%. The following table shows the number of personnel in our distribution segment at the dates indicated:

	At December 31,			
	1997	1998	1999	2000
Distribution employees.....	54,298	51,928	47,841	44,072

We are compensated for transporting electricity on our distribution network through a fee determined by the Energy Authority that is part of the tariff we collect from our customers. You should read “—Regulatory Matters—Electricity Regulation—The new tariff structure” for a discussion of this fee.

Distribution network

The table below sets forth certain information about our primary and secondary distribution networks at December 31, 2000.

Type	Underground Lines	Insulated Aerial Lines	Bare Aerial Lines	Total Lines	Number of Substations	Transformer Capacity
	(km)	(km)	(km)	(km)		(MVA)
Primary:						
High voltage lines (40-150 kV).....	466	—	19,937	20,403	—	—
Primary substations.....	—	—	—	—	1,924	88,400
Secondary:						
Medium voltage lines (1- 30 kV)	115,342	3,716	212,735	331,793	—	—
Low voltage lines	211,962	360,752	137,969	710,683	—	—
Secondary substations	—	—	—	—	407,798	66,609

Losses on our distribution network in 2000 were 5.4% of total electricity demand and aggregate losses on our transmission and distribution networks were 6.4% of total electricity demand. We believe that these losses are in line with those of other leading European electricity companies.

Our replacement and construction of distribution lines and substations are subject to Italian regulatory limitations on environmental and aesthetic grounds including recently enacted legislation on electromagnetic fields that may make it more difficult to install new transmission and distribution lines and substations in the future and may require moving existing transmission and distribution lines and

substations. You should read “Item 3. Key Information—Risk Factors—We may incur significant capital expenditures to comply with new legislation on electromagnetic fields; we may not be fully reimbursed for such capital expenditures” and “—Regulatory Matters—Environmental Matters—Electromagnetic fields” for a more detailed description of the environmental laws and regulations affecting our distribution operations and the risks they pose for our business.

Consolidation of electricity distribution networks

In some cases, a single municipality is served both by our distribution network and the distribution network of a municipal utility. The Bersani Decree provides that a single distribution license will be issued for each municipality in Italy, thereby creating an incentive for the consolidation of such multiple distribution networks. Specifically, the Bersani Decree provides that any distribution company that is owned or partly owned by a municipality and serves at least 20% of the customers in that municipality may have requested that we sell our distribution network in that municipality to it by March 31, 2001. To date, we have sold two such networks.

- In March 2000, we sold our distribution network in Trieste to A.C.E.GA.S. S.p.A., the municipal utility of Trieste, for Lit. 22 billion. The network sold to A.C.E.GA.S supplies electricity to 819 customers in the city’s port and industrial districts and has an annual sales volume of 77 GWh.
- In December 2000, we sold our network in Parma to A.M.P.S. S.p.A., the municipal utility of Parma, for Lit. 110 billion. The network serves approximately 40,000 clients and has an annual sales volume of 465 GWh.

Moreover, in March 2001, we agreed to sell our network in Rome and Formello to ACEA S.p.A., the municipal utility of Rome, for Lit. 1,100 billion. The network serves approximately 709,000 clients and has an annual sales volume of 4,300 GWh. The transaction is expected to close in July 2001.

We have received requests for the sale of our distribution networks from an additional 63 distribution companies entitled to do so, including those active in Milan, Turin and Verona. The Bersani Decree provides that if we had not reached an agreement with any of these qualifying companies by September 30, 2000, the terms of our sale of the relevant municipal distribution networks should be determined by an arbitration panel. Certain of the qualifying companies have issued a formal demand for price arbitration, including those active in Milan, Turin and Verona. In the case of Milan, the arbitration panel set the sale price of our network at Lit. 820 billion. We have appealed this decision.

Based on our results for 2000, if we were required to sell all of our relevant networks to qualifying municipal distributors, we estimate that we would lose approximately:

- 1.6 million customers, or 5% of our customer base;
- 10.1 TWh, or 5.2% of our total annual distribution of electricity to final customers;
- Lit. 1,300 billion, or 5.3% of our annual revenues relating to our distribution business; and
- approximately 8% of our annual earnings before interest, taxes, depreciation and amortization, or EBITDA.

The distribution networks that we are required to sell are more profitable than our average distribution network mainly because distribution in metropolitan areas has lower costs. The Energy

Authority has indicated that it intends to put in place an equalization system that may compensate for some or all of the comparative disadvantages of distributors serving non-urban areas.

The Bersani Decree also contemplates the consolidation of our distribution networks with those of distribution companies (owned or partly owned by a municipality) that serve at least 100,000 customers in municipalities adjoining those where our networks are located. Pursuant to these provisions, certain municipal distribution companies have expressed an interest in purchasing our electricity distribution networks in adjoining municipalities. We believe that, under the Bersani Decree, any such sale may occur only upon the agreement of all parties concerned.

We cannot predict the outcome of the consolidation process, but it may materially adversely affect the results of our distribution segment. You should read “Item 3. Key Information—Risk Factors—The Bersani Decree requires us to sell a portion of our distribution networks and our operating profits may decrease as a consequence” and “—Regulatory Matters—Electricity Regulation—The new regulatory framework—Distribution—Consolidation of the distribution industry” for a more detailed discussion of this consolidation process and the risks involved for us.

We are also pursuing other cooperative arrangements in the field of electricity distribution. In June 2001, we sold to the Regional Authority of Valle d’Aosta a 49% interest in Deval S.p.A., a distribution company which owns and operates approximately 3,900 km of electricity distribution lines and serves approximately 114,000 customers in that region.

Sales to regulated market

Our regulated market consists of:

- Non-Eligible Customers, which are all customers for which we are the sole provider of electricity and which are not eligible to purchase electricity from other electricity distributors; and
- Eligible Customers that choose not to participate in the free market. Eligible Customers may choose to remain within the regulated market for a period of four years. See “—Regulatory Matters—Electricity Regulation—The New Regulatory Framework—Eligible and Non-Eligible Customers”.

We supply electricity to four main classes of end users: industrial, commercial, household and agricultural users. The consumption threshold for qualification as an Eligible Customer is scheduled to decrease over time, which will tend to reduce the size of our regulated market. As of December 31, 2000, we serviced approximately 23.3 million households, approximately 92% of all households in Italy.

The following table sets forth the amount of electricity that we sold by class of customer and our total operating revenues from sale of electricity to those customers for the periods indicated. The revenues shown below are different from the amounts shown as “Operating Revenues” in our consolidated financial statements and in other sections of this annual report. These differences arise from the fact that the revenues shown below do not include certain payments, such as connection fees we receive, and include “Component B” of the regulated electricity tariff and other system charges that we are required to remit to third parties through the Equalization Fund. See “—Regulatory Matters—Electricity Regulation—The new regulatory framework—Charges payable to the equalization fund”.

	1997		1998		1999(1)		2000	
	(TWh)	(Lit. in billions)	(TWh)	(Lit. in billions)	(TWh)	(Lit. in billions)	(TWh)	(Lit. in billions)
Industrial	104.3	15,126	107.1	15,903	107.5	14,983	77.0	13,543
Up to 30 kW	5	1,667	5.1	1,706	5.2	1,792	5.2	2,159
From 30 to 500 kW.....	24.9	4,857	25.8	5,123	26.5	5,035	27.1	5,454
Over 500 kW....	74.4	8,602	76.2	9,074	75.8	8,156	44.7	5,930
Commercial and other services.....	49.5	10,321	51.8	10,960	54.1	11,140	55.5	11,496
Household.....	53.0	12,184	53.7	12,610	55.0	12,577	55.2	13,058
Agricultural.....	4.2	911	4.3	953	4.5	993	4.7	1,064
Total.....	211.0	38,542	216.9	40,426	221.1	39,639	192.4	39,161
Other distributors								
and exports	8.3	488	9.3	509	8.4	458	8.7	424
Total.....	<u>219.3</u>	<u>39,030</u>	<u>226.2</u>	<u>40,935</u>	<u>229.5</u>	<u>40,151</u>	<u>201.1</u>	39,585
Distribution to Eligible Customers.....	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	43.5	509.3

(1) Excludes approximately 1 TWh sold by Enel Trade in 1999.

We estimate that we supplied approximately 85% of the electricity sold in Italy in 2000. Growth in our sales to industrial users is closely related to economic growth in Italy. In 1997, the industrial sector benefited from the introduction of incentives for car buyers. In 1998, the decrease in Italian exports due to the Asian and Latin American financial crisis limited the growth of the Italian economy. In 1999, the Italian economy recovered from the slow growth of the previous years, especially in the second half of the year, and this trend was confirmed by the strong demand experienced in 2000, particularly in the industrial and service sectors. We believe that the increase in our sales of electricity to commercial users in the periods shown confirms the growth and the importance of this sector of the Italian economy as a result of its modernization through, among other factors, the increased use of telecommunications services and information technology. Growth in our sales of electricity to households has been limited, principally because the prior tariff structure limited the incentives for household consumption of electricity to the benefit of other sources of energy. The latest generation of household appliances, which tends to consume less energy, and the current tariff structure, which favors residential customers, may provide incentives to increase the consumption of electricity by households. The consumption of

electricity by agricultural users has been generally stable during the periods shown, with only minor fluctuations due to weather conditions.

Following the introduction of the new tariff framework in January 2000, average tariffs for sales of electricity to Non-Eligible Customers in 2000 declined by 10.7%. You should read “Regulatory Matters—Electricity Regulation—The new tariff structure” for a more detailed discussion of the new tariffs. In addition, in December 1999, the Energy Authority changed payment terms for electricity bills and modified the rules on customer deposits and the specified amounts of expenses and interest to be paid by electricity customers in case of late payment. These changes were introduced during the course of 2000. We estimate that, in the aggregate, these changes increased our working capital by approximately Lit. 300 billion in year 2000. In December 2000, the Energy Authority approved our proposal for a new tariff structure. We believe that this new tariff structure is more flexible and responsive to consumer needs. See “—Regulatory Matters—Electricity Regulation—The new tariff structure”.

In general, we are required by law to supply electricity under the same contractual conditions and at the same tariffs (or tariffs subject to the same limits) to all customers within an established class. However, we are required by law to provide certain of our customers with special contractual conditions and discounted tariffs. These customers include the state-owned Italian railway company, Ferrovie dello Stato S.p.A., and a steel company, Acciai Speciali Terni S.p.A., both of which transferred electricity assets to us as part of the nationalization of the Italian electricity industry in 1962. Since January 2000, both Eligible and Non-Eligible Customers pay a surcharge designed to recover the costs of these special arrangements. See “—Regulatory Matters—Electricity Regulation—The new tariff structure”.

Customer services

Customer service is an important part of our commercial strategy. In 1996, as a result of a joint initiative of all participants in the Italian electricity industry and the public authorities, we signed the electricity service charter. The charter seeks to provide more information to electricity customers about the terms on which we provide services and improve electricity customers’ protection and satisfaction. The Energy Authority has recently issued guidelines defining quality thresholds and maximum times for the provision of each kind of service and imposing penalties for failure to provide certain services to customers within specified deadlines. Distributors that exceed certain of these targets are remunerated through bonuses. See “—Regulatory Matters—Electricity Regulation—The new tariff structure—Quality of service regulation”. We believe our investments in customer service related initiatives are sufficient to allow us to comply with these guidelines. However, given the novelty of the bonus and penalty system which will begin to affect our revenues in 2001, we cannot predict its likely impact on our revenues for any subsequent period.

The average waiting time for connections not requiring work on our electricity distribution network in 2000 was 1.4 days, basically unchanged from 1999. In 1988, these connections took over 13 days on average. In 2000, the average duration of service interruptions at national level decreased by 8% as compared to 1999. This average excludes the regions of Campania, Calabria and Sicily, as to which it was not possible to gather reliable and accurate information for 1999. The information we provided to the Energy Authority relating to these regions contained a number of inaccuracies. Promptly after our discovery of the inaccuracies, we notified the Energy Authority. Following such notification, in May 2001, the Energy Authority fined us Lit. 90 billion for providing inaccurate information on the amount and duration of service interruptions in the regions of Campania, Calabria and Sicily in 1998 and 1999.

In certain cases, Italian law permits the fined party to satisfy its obligation by paying the lower of one third of the amount of the statutory maximum amount and twice the statutory minimum amount for the fine within 60 days following the finnee’s receipt of the notice of the alleged violation. We believe that

this provision applies to our case and that we satisfied our obligation by paying Lit. 100 million. We intend to ask the Administrative Court of Lombardy to confirm our position.

Currently, we conduct most of our primary customer service activities by telephone. We are consolidating our telephone customer service system into 25 unified, nationwide call centers integrated in 8 clusters with a single call-in number. The new call centers will also offer an expanded range of services, including bill payment by credit card. We expect the new structure to enhance the support available to our customers because the creation of larger technical expert teams at fewer centers should allow for greater specialization and improve our efficiency in responding to calls. We also expect that the new call center projects will result in significant future savings, primarily through workforce reductions. We expect to complete the call center project in 2002 and estimate that it will have an aggregate cost of approximately Lit. 330 billion and employ approximately 2,500 of our employees. The call centers will be supported by both a national documentation center located in Southern Italy, which will receive, process and electronically file all contractual documentation, and by a national printing center, which will print and distribute all correspondence with customers. We plan to round out our customer service with services available through a Self Service area available on our Internet portal, approximately 700 "QuiEnel" retail locations, WIND's distribution and sales network, and approximately 150 retail locations managed directly by Enel Distribuzione.

We are also introducing a new generation of digital electricity meters that will allow us to measure the consumption of all of our customers automatically from our own facilities. We currently expect to install the first meters in 2001 and to complete the project by the end of 2004, at which time we will have installed approximately 30 million meters. We currently estimate that investments for the project, including installation of the meters, will amount to approximately Lit. 3,600 billion. The new meters, which are of a type that no other major utility in the world currently uses, will be designed to offer us a range of new and improved technical operations. We will be able to connect and disconnect customers and vary contracted capacity electronically from central locations, while we currently need to gain access to customers' premises for any of these actions. The new meters will permit a high number of use measurements throughout the day and facilitate the management of multiple tariff and power setting options by improving our ability to monitor the use of our network. These enhanced capabilities may allow for our introduction of different tariffs for different times (of day, week or year) of consumption, among other things. Because of the increase in automated operations that the new meters will allow, we believe that the new system will produce significant savings. In addition, we believe that the installation of the new metering technology will allow us to provide new value-added services, such as remote control of appliances and home security services, to our electricity customers, in addition to electricity.

In June 2000, we signed a research and development agreement with Echelon Corporation that will allow us to use Echelon's LonWorks network control technology in our digital meter project. We also signed an agreement to purchase 3,000,000 newly issued shares of Echelon's common stock (representing approximately 8% of Echelon's outstanding shares, based on the number of Echelon shares outstanding as of September 30, 2000 and these newly issued shares). Under this agreement, we also have the right to nominate one member of Echelon's board of directors. The transaction closed in September 2000, with the aggregate purchase price for the newly issued shares totaling \$130.9 million. We have agreed to hold the shares for at least three years, although we are free to sell them if our research and development agreement is terminated due to a material breach by Echelon.

We have also introduced several initiatives to improve customer satisfaction, including, in 1998, the *Nuova Bolletta* (the new billing format), that introduced simplified language and content. In addition, since 1997, we have offered *Contowatt*, a service that seeks to promote our customers' use of direct debits from bank accounts to pay their bills. In particular, through *Contowatt*, we seek to provide customers with improved protection against potential technical problems that can cause errors in the direct debits

from bank accounts process. In 2001, we expect to introduce additional customer service initiatives, including the launch of a co-branded credit card to be linked to participation in a premium program. In addition, in 1999 we reintroduced an improved version of our "Eneltel" service, which provides a single national number customers can call to request a direct reading of their electricity meter.

Sales to Free Market

As provided for by the Bersani Decree, we formed Enel Trade in 1999 to focus on marketing and electricity supply to Eligible Customers, and, once a pool market is established, electricity trading. The progressive liberalization of the Italian electricity market will require us to provide our larger customers with increasingly flexible and competitive services that go beyond providing a reliable supply of electricity.

As part of our marketing efforts, we are implementing a series of customer initiatives including:

- specially tailored contract terms for different types of customers;
- special conditions for medium and high voltage customers depending on hours of use; and
- value-added services such as energy monitoring and management, which we may offer over the Internet.

As soon as the pool market is established, which we expect to occur in 2002, we intend to offer price risk management services and financial services to Eligible Customers. In 2001, as part of our multi-utility strategy, Enel Trade began offering natural gas to about 150 industrial and business customers. In March 2001, Enel Trade began to sell electricity and gas over the Internet. Enel Trade is also evaluating the possibility of expanding its operations outside of Italy.

The Bersani Decree envisioned that electricity consumed by Eligible Customers, including electricity produced by them, would account for at least 35% of total Italian electricity consumption in 2000 and 40% of total Italian electricity consumption in 2002. However, in 2000, due primarily to limitations on the volume of electricity available on the free market, only a portion of those customers who qualify as Eligible Customers actually chose to participate in the free market. We estimate that the actual percentage of the total Italian electricity consumption in 2000 represented by the free market, including electricity produced by customers for their own consumption, was approximately 25.5%; excluding self-produced electricity reduces the estimated percentage to 16.2%. Enel Trade accounted for approximately 47% of this market in 2000, serving about 400 individual customers and 100 qualifying consortia comprising a total of approximately 1,100 smaller customers throughout Italy. We expect that the government-mandated transfer of CIP 6 electricity produced from renewable resources to the free market in 2001 will increase competition in that market and potentially reduce our market share. Until the creation of the pool market, the prices of electricity we sell to Eligible Customers are based on negotiated bilateral contracts between us and each Eligible Customer we serve. You should read “—Regulatory Matters—Electricity Regulation—The new regulatory framework—Eligible and Non-Eligible Customers” for a more detailed discussion of regulations regarding Eligible Customers.

Capital Investment Program

We have summarized in the table below our capital expenditures, excluding those related to our telecommunications activities during the years 1998 to 2000.

	1998	1999	2000
	(lire in billions)		
Thermal.....	1,327	1,179	733
Hydroelectric	359	254	245
Geothermal.....	175	138	113
Wind and photovoltaic	<u>8</u>	<u>7</u>	<u>13</u>
Total Generation	1,869	1,578	1,104
Transmission	594	436	367
Distribution (1).....	3,007	3,246	2,630
Other (2)	<u>401</u>	<u>393</u>	<u>578</u>
Total.....	<u>5,871</u>	<u>5,653</u>	<u>4,679</u>

(1) Includes public lighting from 1998 to 1999.

(2) Excludes telecommunications.

Our capital expenditures have been decreasing in recent years due to reductions in the unit cost of construction supplies and the standardization of components. The reductions in generation-related expenditures reflect the fact that our program to bring thermal plants into line with current environmental regulations neared completion during 1998, and benefited from a more efficient investment program that we implemented in 1997.

We incurred total capital expenditures in our core electricity businesses, including expenditures related to the Gencos, of approximately Lit. 4,101 billion in 2000 and we expect to incur expenditures of Lit. 5,250 billion in 2001 and Lit. 7,500 billion in 2002.

We incurred total capital expenditures in all of our other non-telecommunications businesses of approximately Lit. 578 billion in 2000 and expect to incur total capital expenditures in all those businesses of approximately Lit. 1,000 billion of 2001 and 2002.

In accordance with Italian GAAP, we did not consolidate WIND in 2000 or for any prior period. We made capital contributions to WIND of Lit. 587 billion in July 1999 by transferring assets to it and of Lit. 663 billion in cash in April 2000. We expect to make substantial additional capital contributions to WIND in the future. We have made significant capital investments in developing our telecommunications business and expect that we will continue to be required to do so. Recently, we incurred a substantial amount of debt and made significant expenditures in connection with WIND's purchase of a third generation UMTS mobile license and our acquisition of Infostrada.

In March 2001, Enel Investment Holding BV, a Dutch company fully owned by us, acquired from Mannesman Investment BV, a wholly owned subsidiary of Vodafone Group plc, 100% of the capital stock of Infostrada, one of Italy's leading providers of fixed-line telecommunications services and the owner and operator of one of Italy's leading Internet portals. The purchase price for the shares, amounting to €7,250 million (Lit. 14,038 billion), was paid in full on the same date. As provided for in the acquisition agreement, Mannesman Investment BV was also repaid by us €132 million (Lit. 256 billion), representing a receivable it had previously renounced in favor of Infostrada. In addition, on the same date, Enel Investment Holding BV paid Vodafone €821.2 million (Lit. 1,590 billion) due to Vodafone from Infostrada and became a creditor of Infostrada for the same amount. You should read "—Telecommunications—Infostrada—The Acquisition" for further details on the transaction.

We will also make additional investments in connection with our strategy to diversify into other businesses. The amount and timing of these investments will depend upon the nature of these businesses and the structure of our investments in them.

Competition in the Electricity Markets

Generation

Historically, we have not faced competition in our electricity generation business. In 2000, we accounted for approximately 70% of domestic electricity production. We also purchased approximately 56% of the electricity imported into Italy, as well as purchased electricity produced by independent power producers and electricity generated by industrial producers in excess of their own consumption. In accordance with the Bersani Decree, we transferred our long-term purchase contracts with independent power producers to the *Gestore della Rete* in January 2001.

The following table shows gross installed capacity in Italy by category of producer at the dates indicated.

	At December 31,				
	1996	1997	1998	1999	2000
	(GW)				
Enel.....	57.1	58.2	58.9	59.4	58.9
Independent and other power producers	10.7	11.8	13.1	13.9	16.5
Municipal utilities	<u>2.9</u>	<u>2.8</u>	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>
Total.....	70.7	72.8	74.9	76.2	78.3

As a result of the limitation on the production and import of electricity imposed by the Bersani Decree, we must dispose of plants with a total installed net capacity of at least 15.0 GW by January 1, 2003. In order to comply with the requirement, we have transferred approximately 16.0 GW of gross installed capacity to the Gencos, and are in the process of disposing of Elettrogen. We expect that we will complete our disposal of Elettrogen in the second half of 2001.

In addition, the Antitrust Authority conditioned its approval of our acquisition of Infostrada on our disposal of an additional 5.5 GW of generating capacity within 90 days of the sale of the last Genco. We have appealed the decision of the Antitrust Authority before the Administrative Court of Lazio.

After we sell the Gencos and any additional generating capacity, the operators of that generating capacity will compete with us on the open market. We expect that our competitors will also include domestic independent power producers, municipal utility companies and any foreign operators that export electricity to the Italian market or acquire Italian generation assets. In addition, we believe that other producers have requested authorizations to build approximately 76 GW of new generating capacity in Italy. However, we expect that only a small portion of these requested authorizations will be granted.

The three leading electricity independent generators in Italy currently are Edison, Eni and Sondel. Edison has a reported 3.6 GW of generation capacity, Eni has a reported 3.4 GW of generation capacity and Sondel has a reported generation capacity of 1.6 GW. Edison and Sondel are under common ownership.

The main municipal electricity companies are AEM Milano, ACEA Roma and AEM Torino. They are each publicly traded, but remain majority-owned by the relevant municipality. AEM Milano has approximately 1.0 GW of generation capacity, ACEA Roma has approximately 0.4 GW and AEM Torino has approximately 0.6 GW of capacity. In addition to their core electricity business, these companies offer gas and/or water services, and are moving into telecommunications.

We believe that in 2000 we imported approximately 50% of the electricity imported into Italy pursuant to long-term contracts. Pursuant to the Bersani Decree, we may be required to transfer all or part of these contracts, which represent a total of approximately 20 TWh of electricity, to the Single Buyer. The remaining electricity that we will be permitted to import will be made available for sales to Eligible Customers. However, all of that transmission capacity is currently used and allocated according to the rules established by the Energy Authority. You should read “—Purchased Power” for a discussion of these rules.

Electricity sales to Eligible Customers

We expect significant competition to result from the opening of the market to Eligible Customers, which are free to choose the supplier of their electricity. Enel Trade’s competitors in sales to Eligible Customers are independent power producers, importers, wholesalers and brokers. Competition in the free market is increasing in 2001 as a result of the government-mandated addition to the free market of approximately 45 TWh of CIP 6 electricity produced from renewable resources, which the *Gestore della Rete* is selling to operators or directly to Eligible Customers. Competition will also increase more significantly after we dispose of the Gencos and any additional generating capacity.

Seasonality of Electricity Consumption

Electricity consumption in Italy is somewhat seasonal. Since use of artificial light is highest in the winter, electricity consumption peaks during winter months. Nevertheless, increased use of air conditioning has rendered less significant the difference between electricity demand during winter versus summer months. Electricity consumption is particularly low in August, the traditional vacation period in Italy. Electricity demand for commercial and industrial activities and for use of electric appliances tends to be greater during the daytime.

Telecommunications

The Italian Communications Market

Mobile Services. The Italian mobile telephone market, one of the largest in Europe, continued to expand in 2000, adding over 12 million new customers at the end of December 2000 to an existing base of approximately 30 million customers at the end of 1999. The total of approximately 42 million customers represents approximately 73% of the Italian population. Independent market research has estimated that penetration levels for mobile telephony in Italy could reach 98% by 2004.

As of December 31, 2000, Telecom Italia Mobile had more than 22 million customers (an increase of more than 3.4 million customers since December 1999) accounting for approximately 52% of total mobile customers, a 9% market share loss since December 31, 1999. Omnitel Pronto Italia had approximately 15 million customers at December 31, 2000 (a 5 million person increase since December 31, 1999) or approximately 35% of the total market. In the second quarter of 2000, a fourth mobile operator, Blu S.p.A., entered the market and had approximately 820,000 customers by December 31, 2000. WIND had approximately 4.9 million customers as of December 31, 2000, which represented approximately 12% of the total market for Italian mobile telephony, a significant increase from its 4% market share at the end of 1999. Management believes that WIND also accounted for approximately 30%

¹ The data related to the Italian communications market presented in this section are WIND’s estimates, except where otherwise indicated.

of net additions to Italian mobile telephony market in 2000. Prepaid cards continued to spur growth in 1999 and 2000, and represent over 95% of WIND's new customers.

Fixed telephony services. Since the initial liberalization of the Italian telephone market in 1998, more than 150 new companies have been awarded licenses to become fixed-line operators. As of December 31, 2000, the total number of lines operated by alternative fixed-line carriers (*i.e.*, carriers other than Telecom Italia) exceeded 8 million, with a net increase of 4 million since the beginning of the year. According to Eurisko, an independent research firm, Infostrada is the market leader among alternative carriers, followed by WIND, which has over 2.3 million lines. Other major alternative carriers include Tele2, Tiscali and ePlanet, as well as Albacom, which focuses on the corporate market. Competition in the fixed-line telephony market is expected to increase with the expanded availability of carrier pre-selection and the expected unbundling of the local loop.

Internet Services. Since 1999, a mass market for Internet services has rapidly developed in Italy, although penetration levels continue to be below the average for other EU countries. In 2000, the number of registered Internet users more than doubled, reaching a total of approximately 15 million as of December 31, 2000. In addition to the introduction of free Internet services, several Internet portals were launched in Italy during 1999 and 2000 that targeted both corporate and consumer customers. These portals compete to attract users mostly by gathering and making available content and/or services, including e-commerce, financial services, information services and knowledge-based services. In the corporate market, new service providers have focused on the development of web-based applications and on housing and hosting services.

WIND

Overview

WIND is our most significant business outside of our electricity operations, having quickly established itself as one of Italy's principal alternative telecommunications providers. WIND operates throughout Italy with its own network infrastructure and has rapidly developed its transmission backbone by leasing fiber optic cables from us. To expand our presence in the telecommunications sector and complement WIND, we recently acquired Infostrada, one of Italy's leading alternative providers of fixed-line telecommunications services and the owner and operator of one of Italy's leading Internet portals.

We formed WIND as a joint venture in 1997 along with our initial partners, France Telecom and Deutsche Telekom. Following the exit of Deutsche Telekom in July 2000, we own 56.63% of WIND's shares, with France Telecom indirectly holding the remaining 43.37%. As explained more fully below under "—Agreements with France Telecom," although we own a majority interest in WIND, our agreements with France Telecom give France Telecom certain rights with regard to strategic business decisions. In July 2000, following Deutsche Telekom's exit, we signed an amended shareholders agreement with France Telecom that eliminated a number of the management and control restrictions previously imposed on us. In 2000, we did not consolidate WIND's results of operations under Italian GAAP, as we accounted for WIND on the equity method because of the existence of significant control restrictions for the larger part of the year. Starting in 2001, WIND will be consolidated using the line-by-line method. For U.S. GAAP purposes only, we have consolidated WIND's results beginning in August 2000, because of the elimination of certain restrictions on our control as a result of the July 2000 amendment to the shareholders agreement. See notes 24 and 26 to our consolidated financial statements.

Since launching its operations in late 1998, WIND has grown rapidly to become, we believe, the leading provider of fully integrated or "convergent" mobile and fixed-line telephony, Internet and data transmission services in Italy. Italy is one of the largest and, according to the International

Telecommunications Union, fastest-growing telecommunications markets in Europe, with a population of approximately 58 million people, 42.1 million mobile telephony subscribers and 35 million fixed lines, (of which 27 million are provided by Telecom Italia), as of December 31, 2000. In 2000, WIND increased the number of fixed and mobile telephone lines it operates from approximately 2.1 million to approximately 7.2 million and the number of its registered Internet users from approximately 60,000 to approximately 670,000. As of March 31, 2001, WIND further increased its customer base to 8.2 million fixed and mobile telephone lines and approximately 1.0 million Internet registered users. In 2000, WIND also more than tripled its revenues from sales and services, which increased from Lit. 795 billion in 1999 to Lit. 2,565 billion.

Strategy and Competitive Strengths

WIND's primary objective is to build on its expertise as a convergent services provider to become the leading alternative to Telecom Italia, the incumbent telecommunications operator in Italy. WIND intends to grow its business by pursuing the following key strategies, which are based on the principles of convergence, quality, transparency and innovation:

- ***Increase Customer Satisfaction.*** WIND's convergent capabilities allow it to offer integrated fixed, mobile and Internet service solutions to address specific customer needs. WIND is focusing on building customer loyalty and satisfaction by offering high-quality and reliable customer care, easy-to-understand pricing plans and integrated billing for its telecommunication services.
- ***Expand Product Range.*** WIND intends to broaden its existing portfolio of integrated fixed and mobile voice and data services with other convergent services to include multi-media applications for WIND's integrated voice products and multi-access platforms to the Internet.
- ***Enhance the Network.*** WIND will continue to expand its network infrastructure and capacity in Italy, as well as its connections with major European networks using advanced technology, including higher bandwidth technology to support expanded data transmission and Internet services.

WIND's ability to implement its strategies is built on its specific competitive strengths, including:

- ***Leader in Convergent Services.*** WIND is Italy's first fully convergent telecommunications operator, with approximately 30% of its residential and business customers subscribing to at least two of its services. WIND's position as a provider of mobile, fixed-line and Internet services affords it a number of competitive advantages over traditional telecommunications carriers who specialize in either fixed-line or mobile telephony, including:
 - the ability to cross-sell voice, Internet and data services through mobile and fixed-line access to existing customers;
 - the opportunity to improve customer retention by providing the convenience of a single source for all telecommunications and Internet services, including billing and customer care; and
 - the ability to capitalize on the greater efficiencies inherent in operating integrated infrastructure.
- ***Extensive and Innovative Product Portfolio.*** Management believes that WIND's ability to develop and offer a broad range of products using the latest technologies enables it to meet

the demands of a rapidly changing market. These products include combined fixed and mobile pre-paid cards, convergent rate plans, fixed and mobile virtual private networks and special tariff plans.

- **Brand Recognition.** The “WIND” brand is one of the most recognized in the Italian telecommunications sector. WIND believes that its strong brand recognition plays a critical role in customer acquisition and retention across most customer segments. As traditional telecommunications products become commoditized, WIND believes that the brand will give it a competitive advantage in differentiating its products.
- **Highly Developed Infrastructure.** WIND has developed an integrated and advanced national network for voice, data and Internet services that facilitates the rapid introduction of new and innovative products. WIND’s extensive network enables it to lower its reliance on competitor’s networks.
- **Large Customer Base and Broad Distribution.** WIND has capitalized on its multi-channel distribution system to quickly build a large customer base for a new entrant. As of March 31, 2001, WIND had approximately 5 million residential customers and 90,000 corporate customers.
- **Strategic Relationships With Enel and France Telecom .** WIND has taken advantage of the financial support and strategic relationships provided by us and France Telecom to develop its business, including the rapid deployment of the fiber optic backbone it leases from us and access to France Telecom’s international network.

WIND has obtained a number of important licenses and authorizations needed to build its business, including:

- In 1998, licenses to install, develop and resell network capacity on its fixed-line telephone network as well as authorization to provide packet switched data transmission and Internet services through its switched network;
- In June 1998, the third license to provide mobile telephone services in Italy using digital GSM-1800 and GSM-900 technology;
- In November 2000, one of the five licenses to provide third-generation UMTS services in Italy auctioned by the Italian government. WIND’s winning bid requires it to pay a total of Lit. 4,700 billion, of which Lit. 4,000 billion has already been paid and the remainder is to be paid over the next ten years. The UMTS license will be effective as of January 1, 2002 for a term of 15 years. The process by which the Italian government sold UMTS licenses is the subject of ongoing investigations by the public prosecutor for Rome and the Antitrust Authority as well as other pending legal challenges. Although no assurance can be given as to the outcome of these proceedings, WIND does not believe that any of these proceedings will have a material adverse impact on its ability to offer UMTS services.

Customer Base

Since its launch, WIND has been successful in rapidly increasing its customer base. As of March 31, 2001, WIND had approximately 5 million residential customers and 90,000 corporate customers. WIND’s convergent services strategy has resulted in 1.3 million of its residential customers and

approximately 27,000 of its corporate customers subscribing to at least two of WIND's mobile, fixed-line or Internet services as of that date.

As a convergent services operator, WIND uses the number of lines as a measure of its growth, as many of its customers have more than one line for mobile, fixed or Internet services. As of March 31, 2001, WIND had approximately:

- 5.7 million mobile lines, represented by the number of Subscriber Identity Module, or SIM, cards sold, an increase of approximately 4.4 million new lines, since December 31, 1999; and
- 2.5 million fixed lines, an increase of approximately 1.9 million new lines, since December 31, 1999.

WIND has also significantly increased its Internet customer base since launching its services in 2000. As of March 31, 2001, WIND had approximately 1 million registered Internet users, representing an increase of 940,000 users from December 31, 1999. WIND's Internet portal, InWind, recorded more than 75 million page views in March 2001, a significant increase from the 2 million page views recorded at January 2001.

Products and Services

WIND offers convergent voice, Internet and other value-added services to both residential and corporate customers.

Services for Residential Customers. To its residential customers, WIND offers a number of integrated fixed-line and mobile telephony products, including:

- "NoiWind," the first convergent rate plan for mobile and fixed-line calls that offers special rates for calls between a fixed-line and one or more mobile phones;
- "Credito Unico," the only pre-paid card in Italy for both fixed-line and mobile telephone calls;
- Tariff plans for both fixed and mobile telephone users that offer reduced rates based on the length of a call and are designed to encourage higher usage per line, known as "WindLight"; and
- "WindFlat", a tariff plan that offers unlimited local and long-distance calls and discounts for international calls and calls to mobiles for a monthly flat fee.

WIND also offers to its residential customers other value-added services, such as personalized information services delivered via SMS (Short Message Services), and Internet services and products, such as Wireless Access Protocol, or WAP, services and special discount plans where customers pay only for the cost of the call or reduced evening and weekend rates.

Services for Corporate Customers. WIND has developed products geared to the special needs of its corporate customers, including:

- The "WIND Private Network," an integrated "virtual private network" that allows users to access a company's fixed and mobile telecom lines by dialing an extension and can be custom designed to include other value-added services;

- Toll-free numbers that offer Italian corporate customers the possibility to receive calls either on a nation-wide basis, known as “Numero Verde Ovunque,” or from one or more local calling areas in Italy, known as “Numero Verde Area;”
- The “SMS Gate,” a service allowing companies to connect to WIND’s GSM network and establish direct access for managing delivery of a high volume of SMS messages to their customers;
- “WIND IP,” “WIND Dati” and “WINDLink”, services that enable companies to set up their own intranet, telephony and data networks using advanced technology, including high speed digital transmission technology; and
- “WIND Race,” a service allowing companies to offer Internet connectivity to their customers.

WIND also offers to its corporate customers:

- General Packet Radio Services, or GPRS, which allows access to the Internet and to a company intranet and e-mail system via mobile telephones; and
- a prepaid service that allows corporate customers to share cost between personal and business calls.

Following the acquisition of IT-Net, an Italian Internet provider focused on business customers, in September 1999, WIND expanded the portfolio of Internet services offered to its corporate clients to include value-added services such as video-streaming and web housing and hosting services.

In addition to its corporate product offerings, WIND has individual service and supply contracts with certain of its largest customers. WIND currently provides the Enel group with most of its key telephony and other telecommunication services under an outsourcing contract entered into following the Enel group’s contribution of its telecommunications division to WIND in 1999. Pursuant to this contract, WIND currently manages a number of services for us, including our internal data network, comprising approximately 40,000 work stations and 1,000 dedicated routers.

In December 1999, WIND obtained an ISO 9001 Quality Certification for its design, sale, implementation and provisioning of telecommunications services and customer service to corporate customers. This certification is a prerequisite to WIND’s participation in public tenders. In late 2000, WIND won the tender to supply approximately 30,000 mobile phones to Consip (Concessionaria Servizi Informatici Pubblici) S.p.A., an Italian state-owned entity, on an exclusive basis in 2001 and 2002.

Network Access. WIND provides its integrated fixed-line telephony, data transmission and Internet services to residential and corporate customers using several access methods:

- *Indirect Access.* For its residential and small business customers, WIND offers indirect access to its fixed voice and Internet services through either “carrier selection,” where customers dial “1088,” a predefined access code, to select WIND’s network for local, long distance and international calls on a per call basis, or “carrier pre-selection,” where WIND arranges with Telecom Italia for automatic switching to its network without requiring an access code.
- *Direct Access:* WIND is also able to offer direct access to its network for its largest corporate customers through microwave links, direct fiber optic connections or dedicated lines leased

from Telecom Italia. With the scheduled unbundling of the local loop in 2001, when Telecom Italia will be required to permit alternative carriers to have access to its local network, WIND anticipates expanding the availability of direct access to other customers. See “—Regulatory Matters—Telecommunications” for a more detailed discussion of this issue. As a result, WIND customers will no longer be required to pay fixed-line access fees to Telecom Italia and WIND will also be able to collect interconnection fees for calls originating on another operator’s network and terminating on WIND’s network.

WIND offers mobile services through its national dual band GSM-900 and GSM-1800 digital mobile network and roaming agreements with other Italian mobile operators. In the first quarter of 2001, WIND began offering its customers GPRS, the new mobile technology that is expected to provide greater bandwidth for data transmission and Internet access.

Network Infrastructure

Since WIND began its operations, it has focused on developing its technical infrastructure, as well as entering into agreements with other telecommunications operators in order to expand its reach and enhance coverage. WIND uses a common system management software, referred to as its Intelligent Network, for its fixed-line and mobile networks, allowing it to provide integrated telephony and other value-added services to its customers.

As of March 31, 2001, WIND’s network infrastructure included:

- An 11,200 km fiber optic national transmission backbone leased from Enel using Synchronous Digital Hierarchy, or SDH, and Wavelength Division Multiplexing, or WDM technology, the European standard for high speed digital transmission;
- Metropolitan Area Networks in the main Italian cities, including Rome, Milan, Turin, Naples, Florence, Genoa, Bologna and Palermo, comprising approximately 630 km of underground cables;
- A national voice switched network comprising 17 fixed switches and 36 mobile switches;
- A packet switched data network comprising 72 points of presence for data transmission; and
- A dual band GSM 900 and GSM 1800 mobile network covering approximately 82% of the Italian population and 52% of the territory. WIND anticipates completing the upgrading of its base transceiver stations to allow it to provide GPRS service by the second half of 2001.

In the second half of 2001, WIND intends to expand its technical infrastructure by continuing the rollout of its GPRS network, developing its UMTS network and integrating GSM technology into an Internet Protocol, or IP, network infrastructure in order to offer indoor mobile services to corporate customers and highly integrated fixed and mobile telephony and data services.

WIND leases inactive, or dark, fiber on its national backbone from us under a renewable 15-year contract that became effective in 1999. The Enel group’s lease with WIND stipulates a total initial consideration of Lit. 210 billion, and a lease rate of additional Lit. 87.4 billion per year starting in 2000, which can be adjusted after seven years if market prices for fiber optic cable increase or decrease by more than 10%.

WIND has also entered into a number of non-exclusive interconnection and roaming agreements with other Italian telecommunications operators, including Telecom Italia, Telecom Italia Mobile, Omnitel Pronto Italia and Blu S.p.A., as well as other international carriers, including an agreement with France Telecom that provides access to the French carrier's high performance, pan-European fiber optic network. Interconnection agreements allow one operator to make use of another operator's network in order to have the necessary connections to terminate a call originating in that operator's network, whereas roaming agreements allow one mobile operator to have its customers' calls hosted by another mobile operator's networks in geographical areas which its network does not cover. WIND's roaming agreements include terms designed to ensure that WIND customers receive seamless connections, full access to their subscribed services and complete mobile network coverage.

New Initiatives. WIND is developing its broadband capabilities through pilot programs in select areas of Italy. An important initiative in this regard is the establishment of Estel S.p.A., a joint venture formed in July 2000 by WIND, which holds a 40% interest, and the cities of Trieste, Udine and Gorizia in northeast Italy. Estel is building a fiber optic network in the Friuli-Venezia-Giulia region that can support traditional fixed-line telephony and data transmission as well as broadband services such as videoconferencing, video on demand and other interactive and multi-media content and services. WIND supplies the venture with network, information technology and customer care services. Estel launched its initial services in December 2000.

WIND is also evaluating an initiative to develop "last mile" broadband connections and other forms of direct access between a customer's home or business and its network in select Italian cities. WIND intends to coordinate any future direct cabling efforts, to the extent possible, with construction projects undertaken by Enel in the same areas in order to take advantage of cost savings, particularly for expenses related to excavation.

Customer Care and Marketing

WIND markets its services and products through a multi-channel commercial distribution network with over 3,700 points of contact, including dealers, independent agents, business partners and distributors.

Since beginning operations in 1999, WIND has focused on creating customer care systems that are accessible and convenient to use, including:

- A customer administration and billing system for WIND's residential and corporate customers that offers integrated billing for fixed-line and mobile phone telephone charges;
- A customer relationship management system that will allow WIND's corporate clients to pay bills, order supplies or obtain information electronically; and
- Call centers in Rome, Naples and Milan that provide customer support to residential and corporate customers using advanced technologies for automated voice services. As WIND's customer base grows, WIND intends to place greater reliance on outsourcing to meet the staffing needs of its call centers.

WIND's pricing and billing for its fixed-line and mobile services are based on easy-to-understand principles, including:

- An absence of "hidden" fixed costs, such as initial access charges or activation fees;

- Billing calculated on a per second basis;
- Volume discounts; and
- Equal rates for prepaid cards and post-paid telephony services.

WIND uses its own sales force to market products and services to corporate customers. For residential customers, WIND relies on dealers and its own franchise network, including shops in Rome and Milan, which are owned and operated through WIND's wholly owned subsidiary, Mondowind. In March 2000, WIND entered into a joint venture with Eldo, one of Italy's major consumer electronics retailers, to buy a 30% stake in a joint venture that is developing a chain of retail stores that sells WIND telecommunications equipment and services as well as those of other telecommunications operators. In the first half of 2000, 20 stores of this chain have opened.

WIND also continues to closely monitor its compliance with its customer service quality charter (*Carta dei Servizi*), the first charter of its kind in Italy, which it instituted in 1998.

Corporate Organization

WIND has two main divisions (Consumer and Corporate) and four territorial regions, which have commercial, network implementation and operation and customer care responsibilities. WIND currently has four principal regional offices (in Milan, Rome, Mestre and Naples) and 32 secondary offices in other principal Italian cities.

As of December 31, 2000, WIND had 4,922 employees, as compared with 3,739 employees at December 31, 1999. New employees go through a thorough selection process tailored to the specific professional profile of the post being filled. To meet its future employment needs, WIND intends to increase its reliance on outsourcing contracts, particularly with respect to its customer care operations, as well as to continue to hire additional professionals.

Financial Results

As a recent entrant in the telecommunications sector, WIND continues to incur significant operating costs in connection with developing and sustaining its business while, at the same time, increasing sales and service revenues thanks to its rapidly growing customer base. Sales and services revenues increased approximately 223% to Lit. 2,565 billion in 2000, from Lit. 795 billion for 1999. Operating expenses increased less rapidly, rising approximately 115% to Lit. 4,296 billion in 2000 from Lit. 1,994 billion for 1999. Capital expenditures and other investments, including the Lit. 4,000 billion paid to date for WIND's UMTS license, amounted to Lit. 5,855 billion in 2000, as compared to Lit. 1,692 billion for 1999.

In 2000, WIND had a net loss of Lit. 1,438 billion, as compared to a net loss of Lit. 814 billion for 1999. Enel's share of WIND's net losses for 2000 was Lit. 776 billion, as compared to Lit. 439 billion in 1999. Management considers these losses to be expected given WIND's recent entry in the telecommunications sector and its efforts to develop its business.

In March 2001, WIND's shareholders approved the financial statements for the fiscal year ended December, 31 2000, which recorded cumulative losses of approximately Lit. 2,189 billion. Because WIND's cumulative losses for the fiscal year exceeded one-third of WIND's share capital, the shareholders adopted the necessary measures, required by Article 2446 of the Italian Civil Code, and resolved to cover part of the recorded losses by reducing WIND's share capital by approximately Lit.

1,421 billion. Immediately following this required reduction, the shareholders also resolved to increase the share capital by approximately Lit. 850 billion. We and France Telecom subscribed such increase proportionally to our interest in WIND.

Agreements with France Telecom

Although we own a majority interest in WIND, our agreements with France Telecom provide France Telecom with certain specified rights with regard to strategic business decisions taken at shareholder and board of director meetings, as well as the right to nominate four of WIND's nine directors. Certain major business and strategic decisions must be approved by a quorum of six directors and resolutions passed at an extraordinary shareholder meeting also require a super-majority.

The WIND shareholder agreement contains alternative dispute resolution mechanisms intended to settle disagreements between us and France Telecom that may arise as a result of these provisions. These arrangements include certain "put" options, under which we may be required to buy France Telecom's shares in WIND, and in some cases, to pay a premium to France Telecom above the shares' market value, as well as a put option in the event of a deadlock that entitles a party to sell its shares at the price set forth in the agreement. Failure to reach an agreement with France Telecom may also prevent us from implementing strategies that we believe are beneficial to WIND. See "Item 3. Key Information—Risk Factors—Although we have a majority interest in WIND, major business decisions require the agreement of our partner."

Our agreements also provide that WIND's activities will be focused on the Italian market and give France Telecom certain rights with regard to WIND's international activities, including prior approval of any European fixed-line or mobile telephony projects that WIND may undertake outside of Italy, as well as restricting us from selling our interest in WIND to other telecommunications operators without France Telecom's consent.

Environmental and other regulatory matters

WIND takes an active role in health and environmental health protection. Because of its recent start-up of operations, WIND has been able to take advantage of recently developed technologies in its implementation of its quality and safety standards. Each network element focuses on two fundamental goals: minimizing environmental impact and maximizing protection for the population, and is implemented on the basis of permits granted by the local health and administrative authorities. Depending on the installation context, WIND deploys different network infrastructure elements in order to achieve radiation emission ranges lower than the minimum levels required by applicable Italian regulations, which are themselves more than 50% lower than the minimum radiation emission levels set by a number of other European countries. In addition, all plans for WIND's base transceiver stations include a report on electromagnetic emissions that is submitted to the relevant public authorities.

WIND, like other telecommunications providers in Italy, is subject to regulation by both the Italian government and the European Union. You should read "—Regulatory Matters—Telecommunications" for a discussion of the regulatory framework in which WIND operates.

Infostrada

The Acquisition

On March 29, 2001, Enel Investment Holding BV, a Dutch company fully owned by us, acquired from Mannesman Investment BV (an indirect, wholly owned subsidiary of Vodafone Group plc) 100% of

the capital stock of Infostrada, one of Italy's leading providers of fixed-line telecommunications services and the owner and operator of one of Italy's leading Internet portals. The purchase price of the shares, amounting to €7,250 million (Lit. 14,038 billion), was paid in full on the same date. As provided for in the share acquisition agreement, Mannesman Investment BV was also repaid by us €132 million (Lit. 256 billion) representing a receivable it has previously renounced in favor of Infostrada. Moreover, on the same date, Enel Investment Holding BV paid Vodafone €821.2 million (Lit. 1,590 billion) due to Vodafone by Infostrada and became a creditor of Infostrada for the same amount. In addition, in connection with the acquisition, we incurred and will incur during the six-month period following the acquisition, certain ancillary costs amounting to a maximum of €375 million (Lit. 727 billion).

Authorization for the purchase from the European Commission was obtained on January 19, 2001, while the authorization of the Antitrust Authority was issued on February 28, 2001. The authorization of the Antitrust Authority was conditioned on our disposal of 5,500 MW of generation capacity (60% of which must consist of mid-merit and peak plants). The decision of the Antitrust Authority requires us to transfer such capacity to a newly-formed generation company to be sold within 90 days of the sale of the last Genco sold pursuant to the Bersani Decree. We have challenged the decision of the Antitrust Authority before the Administrative Court of Lazio. As agreed with Vodafone, the outcome of this action will have no effect on the sale, which was final and unconditional.

We currently plan to integrate Wind and Infostrada into a single entity which will pursue a diversification strategy, broadening and reinforcing our activities in the telecommunications sector. Our objective is to achieve complete integration in the operations and management of the two companies, which we believe complement each other in numerous areas, with the goal of realizing important synergies in investments, network operations and integrated marketing in the fixed and mobile telephony segments, as well as in the supply of transmission capacity and Internet connections.

In accordance with our intention to integrate WIND and Infostrada into a single entity, we amended our shareholder agreement with France Telecom relating to WIND. This agreement contains also certain mechanisms by which Enel and France Telecom may adjust our respective interest in the combined entity following any such offering, including an option by which France Telecom may increase its share of the combined entity to reestablish the proportional shareholding it held in WIND relative to us prior to our acquisition of Infostrada (approximately 77% of our share) by exercising a call option on a specified number of our shares at any time between the 24th and 30th month following the integration of WIND and Infostrada at a price based on market value, but subject to certain specified caps and floors.

We believe that Infostrada's strength in the fixed-line telephony and Internet sectors, when combined with WIND's strength in mobile telephony and convergent telecommunications services, will enable the combined entity to be the key rival to Telecom Italia, as well as a leading telephone and Internet operator in Italy. Our acquisition of Infostrada should also allow the combined entity to take advantage of significant revenue, operating and capital expenditure synergies, especially with regard to infrastructure and administrative costs. By significantly expanding our telecommunications operations, we also expect that the acquisition will allow us to diversify our revenue base further while expanding our range of value-added services.

Description of the Business of Infostrada

Infostrada offers a wide array of voice, Internet and other value-added service to both residential and corporate customers in Italy.

According to Eurisko, Infostrada is the second largest provider of fixed-line services in Italy, with (based on criteria differing from that used by WIND) approximately 2.9 million residential customers and

approximately 876,000 business customers as of March 31, 2001, of which 800,000 are small businesses. WIND and Infostrada currently use different criteria to determine their number of customers. As of March 31, 2001, Infostrada was the leading Internet access provider in Italy, with approximately 5 million registered users. In addition, Infostrada owns Italia On Line, the leading Italian portal according to Nielsen NetRatings, with 416 million of page-views in March 2001.

Basic telephony services. Infostrada offers basic fixed-line telephony services to business and residential customers using either the carrier selection or carrier pre-selection method. Infostrada also offers certain business customers an automatic carrier selection device that directs all calls made to Infostrada's network by automatically adding the carrier selection code before any number dialed by the customers.

Pronto 1055 is the basic telephone service offered to residential customers. Costs are calculated on the basis of the type and length of calls made. The service includes value-added services such as real-time management of spending levels, both over the phone and the Internet. In 1999, Infostrada launched a series of innovative package deals for Italian fixed-line residential customers that allow personalization of service and grant discounts on the most frequently called numbers. In 2000, Infostrada introduced calling plans for residential customers using pricing methods that moved away from basing charges on the type and length of calls made, these calling plans include:

- Spazio zero, which, for a fixed monthly fee, allows customers to make long-distance calls for the price of a local call, and to access the Internet at reduced prices; and
- Tempo Zero, which, for a fixed monthly fee, allows customers to make unlimited local and national calls, as well as access the Internet.

Infostrada offers two principal calling plans to business customers:

- Linea 1055, which is aimed mainly at small business customers and provides for the payment of network services on the basis of usage; it includes value-added services, such as real-time management of spending levels, both by phone and over the Internet; it also offers alternative calling plans that move away from basing charges on the type and length of calls made, including:
 - Ora Zero, which, for a fixed monthly fee, provides customers with a fixed number of minutes of local and national calls; any calls made beyond these limits are charged at a discounted rate;
 - Spazio Zero Affari, which, for a fixed monthly fee, allows customers to make long-distance calls for the price of a local call and connect to the Internet at reduced rates; and
 - Verde Facile, which is aimed at medium-sized and large business customers and offers discounts based on the volume of calls made. Several additional pricing options allow this service to be customized based on the destinations called or the type of calls made.

Other telephony services. Infostrada offers business customers national toll free and shared toll services and manages about 300 public telephones situated in strategic locations in Italy (predominantly airports and train stations). It sells prepaid and magnetic strip telephone cards and offers carrier and termination services in Italy to other national and international carriers.

Internet and data transmission services. Infostrada offers a full array of Internet and data transmission services to both business and residential customers. In October 1998, Infostrada acquired Italia Online S.p.A., which manages an Internet portal of the same name. Italia Online is among the leading Italian portals in terms of page views per month. Italia Online also sells online advertising to businesses. Through the portal, Infostrada offers a wide array of high-quality Internet services and content, including Arianna, one of the most widely used Italian search engines, a service for virtual communities, an online shopping service, and a wide range of content. Italia Online also offers online customer care applications for customers of the Libero Infostrada internet access service.

Infostrada offers Internet access service in Italy through a variety of products aimed at business and residential customers, including:

- Libero, which offers a subscription free access;
- H-net, Libero 1055 and Libero 1055, which offer access for an annual subscription fee, on a pay per use basis and for a flat fee, respectively;
- fee-based Internet access service packages that are tailored to the specific needs of individual business customers;
- Tempo Zero, Ora Zero and Ora Zero Affari, which offer integrated telephony and Internet access services for residential and small business customers at reduced rates; and
- Verde In Rete and Verde Internet, which offer Internet access services mainly aimed at medium and large business customers.

Infostrada offers high speed Internet access (Fast Internet) to business and residential customers using ADSL, or Asymmetric Digital Subscriber Line, technology. ADSL technology allows high speed transmission of data using the user's existing connections through a dedicated modem at the customer's location and equipment at the telephone exchange office. Currently, Infostrada offers ADSL access by purchasing it wholesale from Telecom Italia.

Infostrada offers its business customers a number of web services, including:

- Web Residence, which includes hosting/housing/e-commerce services aimed principally at small and medium-sized businesses, such as:
 - registration and use of Internet domain names;
 - services that allow customers to create web sites using either their own hardware (housing services) or Infostrada's server (hosting services); and
 - e-commerce services that allow customers to create Internet shopping sites and to accept online credit card payments;
- Web Channel, which permits transmission of high quality audio and video content on the Internet. The service is aimed at customers who intend to create Internet radio or television stations, or who are interested in transmitting specific events, such as conferences or concerts.
- Web Messenger, a service for the management of business customers' e-mail; and

- Web Contact, which allows the customer care staff of businesses that offer online and help desk support services to receive voice calls from the Web.

Other services. In the area of data transmission, Infostrada currently offers to business customers fiber optic connections and data transmission services to create virtual private networks.

Infostrada resells at the national level network capacity as well as medium and long-distance, high capacity transmission circuits, primarily to national operators and international carriers. Infostrada also provides services to ISPs, or Internet service providers, for the implementation of network architecture capable of providing Internet access services to final users.

The Infostrada network. As of March 31, 2001, more than 95% of the traffic Infostrada carries is channeled through its network infrastructure, which includes:

- A 5,754 km fiber optic national transmission backbone, using Wavelength Division Multiplexing, or WDM technology;
- Metropolitan Area Networks in the main Italian cities, including Rome, Milan, Turin, Naples and Florence, comprising approximately 807 km of underground cables;
- A national voice switched network comprising 29 switches; and
- An Internet Protocol, or IP, network, comprising 36 switching nodes and 137,000 modem ports.

Financial Results

In 2000, Infostrada's total revenues from sales and services increased by 29% to Lit. 1,805 billion, as compared to 1999. Of the total, Lit. 1,450 billion were attributable to sales of voice telephony services, Lit. 308 billion to data transmission and Internet services, Lit. 28 billion to the sale of telephone cards and other services and Lit. 19 billion to sales of advertising on the Italia Online portal. However, as a recent entrant in the telecommunications sector, Infostrada continues to incur significant operating costs in connection with developing and sustaining its business. As a consequence, Infostrada recorded consolidated loss of Lit. 313 billion in 2000, despite extraordinary gains of Lit. 232 billion arising from the cancellation of a financial debt owed to Mannesmann Investment B.V.

Fiber optic infrastructure

We have been engaged since 1997 in the E-Net project to install fiber optic cable along portions of our electricity transmission and distribution network. At May 31, 2001, we had installed approximately 11,600 km of fiber optic cable and expect to have installed approximately 11,900 km of fiber optic cable at the end of 2001. We expect that our aggregate capital expenditures for this fiber optic cable project will total approximately Lit. 313 billion over the period from 1997 to 2001.

Other Businesses

Gas

The Italian natural gas market is undergoing a process of liberalization that parallels that of the electricity market to a certain extent. On the basis of current legislation, we expect all Italian gas consumers to be free to select their supplier in a competitive market beginning in 2003. Until then, we

believe that the most effective way for us to build our gas business is through acquisitions of small- to medium-sized distributors. Please refer to “—Regulatory Matters—Gas” for a more detailed discussion of gas regulation in Italy. We believe that building our gas distribution activities as part of a multi-utility strategy offers us opportunities for potential synergies, including, for example, the ability to schedule and perform gas and electric its network maintenance and upgrades in the same area at the same time and the ability to use call centers for both gas and electricity customers, as well as certain competitive advantages, including potential cost savings from economies of scale.

We acquired several gas distribution companies with operations in various Italian regions in 2000 and 2001, the most important being the acquisitions of the Colombo Gas Group in 2000, and those of So.ge.gas S.p.A. and Agas S.p.A. in 2001. Together, our acquisition of gas companies has provided us with access to an aggregate of approximately 500,000 natural gas customers as of June 2001. We are in the process of consolidating certain of our newly acquired gas companies into Enel Distribuzione Gas S.p.A. and Enel Vendita Gas S.p.A., both of which were created in 2001.

We will continue actively to consider the acquisition of other companies involved in gas distribution. Furthermore, we are also the second-largest importer of natural gas in Italy and may in the future consider alternative uses for the gas that currently serves as an energy source for our electricity generating plants.

Water

We believe that we are well positioned to enter the water business because of our technical skills, especially in water collection and other upstream parts of the business, our experience in providing utility services, our presence throughout Italy, the availability of water in our dams in many areas of Italy and our potential to realize synergies with our electricity distribution network. We intend to operate our water business mainly through our wholly owned subsidiary Enel.Hydro S.p.A., with the goal of participating in major water-related tenders and developing our activities to include the construction and management of water distribution networks, as well as ground engineering and water-related research. In January 2001, we transferred Enel.Hydro’s hydroelectric engineering operations to Enelpower in order to concentrate all of our generation-related engineering and construction expertise in a single entity.

We are currently considering a number of acquisitions in the water sector, one of the most important being the acquisition of Acquedotto Pugliese S.p.A., a major provider of integrated water distribution services in Italy. In 2000, Acquedotto Pugliese, which serves approximately 4.3 million people in the regions of Puglia and Basilicata, distributed 244 million cubic meters of water. In the same year, it recorded net income of Lit. 39 billion on revenues of Lit. 692 billion, and an operating profit of Lit. 127 billion. It currently has approximately 2,100 employees.

The entire share capital of Acquedotto Pugliese is owned by the Treasury Ministry. A Decree issued on March 9, 2000, by the President of the Italian Council of Ministers identified us as the prospective purchaser of Acquedotto Pugliese. The decree also provided that a panel of independent auditors determine the price we should pay for Acquedotto Pugliese. On April 2001, the panel set the price at Lit. 936 billion.

However, members of the center-right coalition that won the May 2001 national election have expressed opposition to the sale of Acquedotto Pugliese to our group, and the Regional Authority of Puglia has challenged before the Administrative Court of Lazio the above-mentioned decree of the President of the Italian Council of Ministers. You should read “Item 8. Financial Information—Other Financial Information—Legal Proceedings” for a discussion of relevant court challenges.

In May 2001, we submitted an offer to acquire Southern Water PLC, a UK water and wastewater utility, from its owner, Scottish Power PLC. Southern Water provides water services to 2.2 million of

customers and waste water services to 4.4 million customers, covering an area of 4450 square km. In 2000 it supplied 585 Ml per day of water and dealt with 1,370 Ml. per day of sewage.

In April 2000, Enel.Hydro and Acquedotto Pugliese made a joint bid in a competitive tender for a 25-year concession to manage the bulk water system of the region of Calabria. This project involves the provision of water to approximately 1.7 million people in Calabria and is expected to involve capital expenditures of approximately Lit. 600 billion over the next 25 years. The Calabrian water system subject to the tender generated revenues of approximately Lit. 100 billion in 1999.

Enel.Hydro has also established a joint venture with Ente Acquedotti Siciliani, the main Sicilian water distribution company, to manage the water system in the city of Enna, which will use water from one of our hydroelectric dams. Operations in Enna are expected to commence by the end of 2001 and to generate annual revenues of up to Lit. 30 billion. In 2002, Enel.Hydro expects to enter into similarly structured transactions in other areas of Sicily.

In June 2000, Enel.Hydro, Acquedotto Pugliese, Vivendi Environment, Siba S.p.A., Italcogim S.p.A and Emas S.p.A made a joint bid in a competitive tender for a 30 year concession to provide water and sewage services to approximately half a million people in the area of Latina. This project is expected to involve capital expenditures of of approximately Lit. 700 billion over the next 30 years.

Engineering and construction

We conduct our engineering, procurement and construction, or EPC, operations through Enelpower S.p.A. We formed Enelpower in 1999 by transferring to it the resources, capabilities and expertise of our thermal power plant and transmission line engineering and contracting division. Enelpower operates both inside and outside Italy as an engineering and contracting company and developer of integrated power systems on a turnkey basis. During the last thirty years, our engineering and construction division designed and built power plants for our business with a total of 49,000 MW of gross generating capacity, and installed or constructed almost all of the electricity transmission and distribution facilities built in Italy. In January 2001, Enel.Hydro contributed all of its EPC activities related to hydroelectric power plants to Enelpower, thereby concentrating all our power generation EPC expertise in a single entity.

In addition to serving as the primary EPC contractor for Enel Produzione and the Gencos, Enelpower operates internationally, with a focus on targeted markets in the Mediterranean basin, Middle East and Latin America. In these markets, Enelpower may also act as an independent power producer, managing and operating power plants and transmission facilities it has constructed pursuant to concessions granted by local authorities. Enelpower also works through alliances with strategic partners and may take equity stakes in the projects in which it is involved.

Since its formation, Enelpower's achievements include:

- In July 1999, Enelpower was awarded its first third-party EPC contract in the international market by PowerGen, a U.K. independent power producer, for a 60 MW combined cycle plant in Castelford, England that is now nearing completion.
- In November 1999, Enelpower was awarded an EPC contract for the construction of a 132 MW combined cycle plant in Saudi Arabia.
- In January 2000, a joint venture created by Enelpower with two Greek energy companies entered into an agreement with Exxon Power Investment Company and a major Turkish contractor to develop a 700 MW combined cycle power plant in Greece in anticipation of the

liberalization of the Greek electricity market in 2001. In April 2001, the joint venture was awarded two licenses by the Greek government for the construction of two 440 MW combined cycle plants.

- In the summer of 2000, Enelpower, working in association with a gas turbine manufacturer, was awarded an EPC contract for a 600 MW combined cycle plant in Ballylumford, Northern Ireland.
- During the course of 2000, Enelpower-led consortia were awarded two EPC contracts for power plants linked to desalinization facilities in the Persian Gulf: an 850 MW combined cycle plant in Dubai and a 450 MW combined cycle facility in Oman.
- In September 2000, an Enelpower-led consortium was awarded a build, operate and transfer contract for the construction and a 30-year concession for the management of a 1,000 km long, 500 kV transmission line to connect the Brazilian states of Goias and Bahia.
- In May 2001, Enelpower was awarded a contract for the construction of a 750 MW power plant in Ras Laffan, Qatar.
- In May 2001, Enelpower was awarded a contract for the construction of a 370 MW power plant for ASM Brescia, the municipal utility of Brescia.

Enelpower expects to earn approximately 40% of its revenues in 2001 from work on plants outside the Enel Group.

Real estate and other services

We conduct our commercial real estate management activities through SEI S.p.A. SEI is responsible for managing our commercial real estate assets, renovating, restructuring and maintaining buildings for commercial use and providing building cleaning, maintenance, security, canteen, automobile fleet and other services to both Group companies and third parties. SEI is also focusing on reducing the costs of our real estate portfolio and on leasing property and providing engineering, construction and facility management services to third parties.

In December 1999, we transferred certain residential and industrial real estate assets having a value of approximately Lit. 710 billion to Dalmazia-Trieste S.p.A.; we currently expect Dalmazia-Trieste to dispose of residential assets with a net book value of approximately Lit. 622 billion. At December 31, 2000, we owned real estate (net of the assets transferred to Dalmazia-Trieste) with an approximate net book value of Lit. 4,100 billion, consisting of approximately Lit. 3,950 billion of office buildings and other commercial properties and approximately Lit. 150 billion of residential real estate, real estate formerly used for industrial purposes and unimproved land. In January 2001, we launched www.Quickcasa.it, an Internet portal offering part of our residential real estate portfolio for sale.

In addition to these dispositions, SEI is developing partnerships to rent or sell vacant properties and otherwise develop its real estate assets. In 2000, SEI entered into two joint venture agreements for the management and development of its real estate assets:

- In March 2000, SEI agreed with American Continental Properties Institutional Investors to form a joint venture, Immobiliare Foro Bonaparte, to which it contributed Lit. 1,000 billion of real estate assets and a mortgage loan secured by the assets and equal to approximately 50% of their value, as well as related personnel. In December 2000, SEI sold 51% of its interest in

the new company to American Continental. Immobiliare Foro Bonaparte, which began operations in December 2000, focused on developing and renting properties in Italy.

- In July 2000, SEI and Deutsche Bank Real Estate agreed to establish a similar venture, Immobiliare Rio Nuovo, a joint venture to which SEI has contributed approximately Lit. 800 billion of real estate assets, a mortgage loan secured by the assets and equal to approximately two-thirds of their value, subordinated debt of approximately Lit. 130 billion and related personnel. In May 2001, SEI sold 51% of its interest in Immobiliare Rio Nuovo to Deutsche Bank Real Estate. The parties expect that Immobiliare Rio Nuovo will acquire additional real estate assets over time.

In addition, in January 2001, SEI and Mitsubishi Electric Europe established a joint venture, Conphoebus Technology Services, focusing on the installation of air conditioning systems and the provision of integrated facility management services to both affiliated and third-party clients. We believe that the venture provides SEI with a valuable point of entry into the growing Italian facility management market. SEI owns 50% of the new company's share capital.

Public lighting

So.l.e. S.p.A. operates our public lighting services in Italy and abroad. So.l.e. is targeting the general market for public lighting, as well as customized lighting systems for monuments, squares, churches and other landmarks. So.l.e. offers both indoor and outdoor lighting systems, as well as maintenance of such systems and the related electricity plants.

In 2000, So.l.e. was awarded new maintenance contracts for approximately 105,000 public lighting points throughout Italy and approximately Lit. 100 billion in construction contracts for lighting plants. So.l.e. has also developed and begun to market new value-added public lighting products.

Electricity systems-related services

We formed Enel.si S.p.A. in March 1999 to offer to our clients construction and maintenance services for their electricity systems and operation and maintenance services for small co-generation power plants and photovoltaic plants. Enel.si draws on the technical capabilities of the Enel Group to assist clients in optimizing their use of electricity, as well as offering them consulting and personnel training services.

Waste-to-energy

We formed Elettroambiente S.p.A. in January 1996 to support our environmental protection activities and our waste management, combustion and disposal business. Elettroambiente is developing industrial waste management systems and technology to recycle urban solid waste through thermal generation. In addition, Elettroambiente is involved in the development of several projects for building and operating waste-to-energy power plants and managing asbestos waste, as well as related research. In March 2001, Elettroambiente agreed to buy Powerco for a total consideration of Lit. 35 billion. Powerco is an Italian producer of energy derived from waste, landfill gas and biomass and the sole user of Plasma Pyrolysis Vitrification (PPV) technology, which produces energy through the transformation of solid waste into gas at very high temperatures. The transaction is expected to close upon the receipt of the necessary regulatory approvals.

New Technologies and Venture Capital

During the year 2000 we began redirecting some of the funds we had previously devoted to research and development towards venture capital activities, focusing on minority investments in companies in the telecommunications, new media, information technology and Internet sectors, as well as on new technologies and applications related to our utility business.

In March 2001, along with ten other major European utility companies, we agreed to establish Eutelia N.V., a business-to-business internet marketplace for electricity, gas and water equipment procurement. Our holding in this venture is equal to 9.8%

Support Services

Research and development

We maintain our own research and development program to provide technological innovations to our businesses. The objective of our research and development activity is to improve the efficiency and capacity and expand the service offerings of our core electricity businesses and reduce their environmental impact. We develop new products and processes internally and also acquire technology in the market which we then customize for our own purposes.

During the past three years, we have conducted research and development activities mainly to improve the efficiency of our generation plants and our transmission and distribution networks, to minimize the environmental impact of electricity generation and to develop innovative technologies to deliver new services through our network infrastructure. We conduct our research and development activities mainly through Enel Produzione, Enel Hydro and the following subsidiary companies:

- CESI S.p.A., which is dedicated mainly to the testing of electrical and electronic equipment and to research on new electrical systems and plants; and
- CISE S.r.l., which offers qualification and technology consulting services, as well as “Green Label” certification to businesses that generate or employ exclusively electricity produced from renewable resources.

Our research and development program involves approximately 1,200 employees. Our expenditures on research and development were approximately Lit. 240 billion for 2000, Lit. 280 billion for 1999, Lit. 350 billion for 1998 and Lit. 410 billion for 1997. As noted above, we have begun to redirect some of the funds we had previously devoted to research and development activities to venture capital activities.

We historically have conducted and funded research for the national electricity system. CESI has become responsible for system research following the transfer to it of all related resources of Enel S.p.A. A system charge included in electricity tariffs is targeted for the financing of system research activities. We expect to reduce our shareholding in CESI over time.

Information technology

Enel.it S.p.A., which we formed in October 1999, is responsible for providing information technology services to all of our businesses. Enel.it designs new tools and services to support development of new products and markets by our businesses and to enhance the efficiency and effectiveness of our information technology systems, including the implementation of an integrated SAP information management system in many of the Group’s companies. Enel.it is also working with Enel

Distribuzione, Terna and WIND on the installation and exploitation of our fiber optic infrastructure through the E-net project. Enel.it employs approximately 1,400 technicians and managers, who are responsible for the management of processing systems, technology infrastructure and software development.

Enel.it has three central data processing centers and six mainframes with a total data processing capacity of 4.4 billion instructions per second, 50,400 workstations, 1,100 local area networks, 4,600 servers and one wide area network. Together with WIND and Enel Distribuzione, it is also developing the Power Line communication project for the transmission of data signals through the electricity distribution system, so as to offer Internet-based and other on-line services, as well as indoor communications technology services, to our customers. Enel.it is also advising other companies of the Group on possible uses and enhancements of their websites, including the implementation of e-commerce portals. As one of the largest information technology companies in Italy, Enel.it has also begun to offer its consulting services to parties outside the Group.

Factoring

In May 2000, we established Enel.factor S.p.A., a captive factoring company 80% owned by us and 20% owned by Meliorbanca, an Italian bank. Enel.factor began operations in October 2000 and engages in the factoring of receivables owned by third parties against companies of our group. In 2000, the Enel group entered into agreements for the purchase of goods and services (excluding energy, fuel and telecommunications) with an aggregate value of approximately Lit. 9,176 billion from about 70,000 suppliers, representing the potential market for Enel.factor's activities.

Insurance

We face risks of accidents in our operations, including risk of fire and risks related to construction activities, transportation and third-party liabilities. Following the expiry of our main insurance policies in June 2000, we adopted a policy of self-insuring for third-party liability, environmental liability and property risks up to Lit. 100 million per claim (Lit. 500 million for environmental liability risk and Lit. 250 million for property risk of our generation companies). Liabilities in excess of these amounts, up to per claim limits of Lit. 1.6 billion for environmental liability, Lit. 5 billion for third-party liability and Lit. 2 billion million for property risk, are insured by two third-party insurance companies, which in turn reinsure virtually all such liabilities with Enel.re Ltd., a wholly owned captive re-insurance company we established in May 2000. Liabilities in excess of these amounts, up to per claim limits of Lit. 60 billion for environmental liability, Lit. 1,000 billion for third-party liabilities arising from accidents concerning our dams, Lit. 400 billion for other third-party liabilities and Lit. 2,000 billion for property risks, are reinsured by Enel.re with third-party re-insurance companies. We self-insure liabilities above these amounts. We believe that this policy is appropriate to the financial capacity of and that it offers us a less expensive means of risk coverage. We believe that our risk coverage is adequate when measured on the basis of our accident history. We continuously monitor our risks, accidents and damages both on an aggregate and on a unit-by-unit basis.

REGULATORY MATTERS

Electricity Regulation

The Industry Ministry and the Energy Authority share responsibility for overall supervision and regulation of the Italian electricity industry.

The Industry Ministry is responsible for establishing the strategic guidelines for the electricity industry and for ensuring the safety and economic soundness of the electricity sector.

The Energy Authority is responsible for:

- Setting and adjusting electricity tariffs on the basis of general criteria established by law;
- Advising the Industry Ministry on the structuring and administration of licensing and authorization regimes for the energy sector;
- Issuing guidelines with respect to the production and supply of electricity to ensure the quality of services provided to customers;
- Overseeing the separation of utility companies into separate units for accounting and management purposes; and
- Protecting the interests of electricity customers. For this purpose, the Energy Authority can mediate and preside over arbitration proceedings between customers and electricity companies and can impose fines and other sanctions for violation of electricity regulations.

Prior to April 1999, the regulatory framework for the Italian electricity industry:

- Gave the ultimate authority for the generation, transmission and distribution of electricity to the Italian government, which licensed such activities to us and to municipal electricity utilities;
- Restricted power generation to authorized producers and restricted other electricity producers to use their production only for their own consumption, for sales to affiliated companies, or for sales to us; and
- Provided that each year the Energy Authority determined electricity tariffs based on a “cost-plus” system.

The regulatory framework for the Italian electricity sector has changed significantly as a result of an European Community, or EC, directive issued in December 1996, commonly referred to as the Electricity Directive, that requires EU member states to liberalize their electricity sectors. In particular, the Electricity Directive seeks to create an internal market for electricity by providing for separation among generation, transmission and distribution activities and introducing competition in generation activities. In addition, each EU member state must ensure that a specified percentage of its electricity market (as established yearly by the Commission) is open to competition.

On April 1, 1999, the Bersani Decree, which implemented the principles contained in the Electricity Directive, became effective in Italy. It began the transformation of the electricity sector from a highly regulated industry to one in which energy prices charged by generators will eventually be determined by competitive bidding. The Bersani Decree requires that distribution companies servicing the same municipality consolidate their networks. It also provides for a gradual liberalization of the electricity market so that customers whose annual consumption of electricity exceeds specified amounts will be able to contract freely with power generation companies, wholesalers or distributors to buy electric power.

The Energy Authority has also replaced the “cost-plus” system for tariffs with a new “price-cap” tariff methodology. Under the price-cap methodology, tariffs will be reduced by a fixed percentage each year. This system creates incentives for operators to improve efficiency and gradually passes savings onto final customers.

The new regulatory framework, when fully implemented, will replace most laws and regulations applicable to the Italian electricity industry. Both the new regulatory framework, the implementation of which began in April 1999, and the old regulatory framework, which was in effect during periods prior to April 1999 for which financial statements are presented in this annual report, as well as the new and old tariff systems, are summarized below.

The new regulatory framework

The Bersani Decree established a general regulatory framework for the Italian electricity industry that gradually introduces free competition in power generation and sales to Eligible Customers while maintaining a regulated monopoly structure for power transmission, distribution and sales to Non-Eligible Customers. In particular, the Bersani Decree and the subsequent implementing regulations:

- Liberalized, as of April 1, 1999, the generation, import and export of electricity, as well as the sale of electricity to Eligible Customers;
- Provided that after January 1, 2003 no electricity company will be allowed to produce or import more than 50% of the total of imported and domestically produced electricity in Italy in order to increase competition in power generation; as a result of this limit, we must sell not less than 15,000 MW of our generating capacity by January 1, 2003;
- Distinguished between Eligible Customers, which may negotiate supply agreements directly with any domestic or foreign producer, wholesaler or distributor of electricity, and Non-Eligible Customers, which must purchase electricity from the distributor that serves the area in which they are located and pay tariffs determined by the Energy Authority;
- Provided for the establishment of the Single Buyer, a central purchaser of electricity from producers on behalf of all Non-Eligible Customers;
- Provided for the creation of the *Borsa dell'Energia Elettrica*, or pool market for electricity, in which producers, importers, wholesalers, distributors, other Eligible Customers and the Single Buyer will participate, with prices being determined through a competitive bidding process;
- Provided for the creation of the *Gestore del Mercato*, or Market Operator, charged with managing the pool market;
- Provided that the transmission and distribution of electricity are reserved to the Italian government and performed by licensed operators, and in this respect:
 - Provided that management and operation of the national transmission network is licensed to an independent system operator, the *Gestore della Rete*, with owners of the transmission network such as ourselves retaining ownership of the network assets; and

- Established a new licensing regime for electricity distribution and provided incentives for the consolidation of electricity distribution networks within each municipality.

The process of market liberalization enacted by the Bersani Decree is highly complex. Certain of the actions required by the Bersani Decree have not occurred within the contemplated time periods and it is likely that a number of the deadlines set forth by the Bersani decree may not be met. See “Item 3. Key Information—Risk Factors—Recent regulatory changes may have a significant adverse effect on our business and profitability.”

Generation

The Bersani Decree liberalized the regime for the generation of electric power. In order to increase the level of competition in the market, the Bersani Decree provides that, by January 1, 2003:

- We, like any other generation company, will not be allowed to produce or import more than 50% of the total amount of electricity produced or imported in Italy.
- We will be required to sell not less than 15,000 MW of our approximately 58,967 MW of gross installed generating capacity, so as to reduce our market share. To comply with this requirement, we developed a plan to dispose of 15,057 MW of net installed capacity, or approximately 16,000 MW of gross installed capacity, which we submitted to the Council of Ministers and which the Council approved in August 1999. This capacity has been contributed to the three Gencos (Eurogen, Elettrogen and Interpower) we created in October 1999. See “—Business—The Enel Group—Disposal of generating capacity.” The January 1, 2003 deadline is extendible for one year if market conditions require (as determined by the Antitrust Authority after consulting with the Energy Authority). In October 2000, in compliance with the applicable regulations, we started the procedure for the sale of the first Genco, Elettrogen, which we expect to complete in the second half of 2001. In order to qualify for the purchase, potential buyers have to comply with the limits set forth in the applicable regulations regarding State shareholding.

We may also be required to sell a further 5,500 MW to comply with the decision of the Antitrust Authority regarding our acquisition of Infostrada, which we have now appealed. See “—Business—Telecommunications—Infostrada—The Acquisition” for a discussion of this requirement. The Bersani Decree also requires that the Italian government adopt streamlined authorization procedures relating to the construction of new power generation plants and the renovation and expansion of existing plants.

Promotion of renewable resources

In order to promote the generation of electricity from renewable resources, the Bersani Decree provides that, starting in 2001, all companies that introduce more than 100 GWh of electricity generated from conventional sources into the national transmission network in any year must, in the following year, introduce into the national transmission network an amount of electricity produced from newly qualified renewable resources that is equal to at least 2% of the amount of such excess over 100 GWh, net of co-generation, self-consumption and exports. This electricity may be produced directly, purchased from other producers or purchased from the *Gestore della Rete*. Renewable resources include geothermal and hydroelectric energy sources. The electricity generated from those resources must be from generating capacity installed after April 1, 1999, the date the Bersani Decree became effective. Electricity generated from qualifying renewable resources will be certified by means of tradeable “green certificates” issued by the *Gestore della Rete*.

In addition, the Bersani Decree directs the *Gestore della Rete* to dispatch electricity into the national transmission network in the following order of priority: first, energy produced from qualified renewable resources, then that from co-generation and finally electricity produced from domestic fuel sources that the government seeks to favor. We plan to meet the specified thresholds for producing renewable resource electricity through the establishment of new plants and through the purchase of green certificates or any additional electricity from other plants using renewable resources. In particular, we have plans for the establishment of new geothermal and wind plants, the expansion of our biomass and waste generation activities and increased output from our existing hydroelectric plants.

Hydroelectric power

Under the Bersani Decree, all of our licenses for the generation of electricity from large bodies of water, which had originally been granted to us for an indeterminate period of time, will now expire in April 2029. In addition, the Bersani Decree automatically extended to December 31, 2010 the term of all hydroelectric licenses for the generation of electricity from large bodies of water that were granted to other electricity producers and were scheduled to expire before such date. All hydroelectric licenses expiring after December 31, 2010 retain their original expiration date. After the expiration of any licenses we hold, we may bid for new licenses, which will have a duration of 30 years. A law issued in August 2000 states that hydroelectric licenses for the generation of electricity from small bodies of water, which had also previously been granted for an indefinite term, will also expire in 2029. The Bersani Decree also provides that the Provincial Authorities of Trento and Bolzano and the Regional Authority of Valle d'Aosta, which enjoy special autonomous status under Italian law, may reduce the duration of hydroelectric licenses in their jurisdiction to less than thirty years. Pursuant to a governmental decree of 1999, all of our hydroelectric licenses for the provinces of Trento and Bolzano, as well as all licenses held by other electricity producers in the same provinces which expire before December 31, 2010, will now expire on December 31, 2010 and, from that date, will be granted for 30-year periods. Finally, certain of our hydroelectric licenses were transferred to Elettrogen pursuant to a law enacted in November 2000.

In June 2001, we sold to the Regional Authority of Valle d'Aosta all our hydroelectric plants in that region and a 49% interest in our distribution subsidiary in that region. Please refer to “— Distribution” for a description of this transaction.

Imports

The volume of electricity that can be imported into Italy is limited by the capacity of transmission lines that connect the Italian network with those of other countries, currently a maximum of approximately 40 TWh per year. Geographical, financial and logistical limitations render it unlikely that this limit will be increased significantly through the construction of new interconnections in the near future.

In 2000, we controlled approximately 2,600 MW of this total import capacity pursuant to long-term contracts between us and foreign producers and wholesalers. In order to address the allocation of the remaining capacity, the Bersani Decree authorizes the Energy Authority to set terms and conditions on import capacity taking into account a fair allocation between Eligible and Non-Eligible Customers, if import demand exceeds total interconnection capacity. During the course of 2000, the Energy Authority established an auction system to allocate interconnection capacity in 2001 and set import quotas that would have limited any single importer to 10% of the total interconnection capacity and 20% of the interconnection capacity available at the border with any given country. Following a judgment of the Italian Council of State, the Energy Authority has set aside the auction system and issued new import quotas. In particular, interconnection capacity is allocated on a pro-rata basis and requests for interconnection may be reduced accordingly; in any case, no single importer can hold more than 5% of

the total interconnection capacity available and no more than 10% of the interconnection capacity available at the border with any given country. As a result, our ability to import electricity has been significantly reduced.

Eligible and Non-Eligible Customers

One of the most important features of the new regulatory framework established by the Bersani Decree is the distinction between Eligible Customers and Non-Eligible Customers. All customers that do not qualify as Eligible Customers are defined as Non-Eligible Customers.

Eligible Customers consist of:

- Customers whose annual consumption of electricity at a single delivery point in the previous year (including electricity produced by them) was at least 20 GWh from January 1, 2000 to December 31, 2001 and 9 GWh after January 1, 2002;
 - Consortia of business customers whose aggregate annual consumption of electricity meets the thresholds indicated above, but only if each member of such group or consortium
 - had in the previous year an annual consumption of at least two GWh through December 31, 1999 and one GWh in 2000 and thereafter, and
 - is located in the same municipality or in a contiguous municipality to other members of the consortium;
- Entities outside Italy that have the right to choose freely their supplier of electricity, with respect to electricity consumed outside of Italy;
- The local distribution company that serves the autonomous provinces of Trento and Bolzano;
- Local distribution companies, but only with respect to electricity distributed by them to other Eligible Customers; and
- Electricity wholesalers, but only with respect to electricity sold by them to other Eligible Customers.

After January 1, 2002, customers whose annual consumption of electricity in the previous year was at least one GWh at each delivery point and 40 GWh in the aggregate will also qualify as Eligible Customers.

Eligible Customers may negotiate supply agreements directly with any domestic or foreign producer, wholesaler or distributor of electric power. Wholesalers, including our subsidiary Enel Trade, may buy electricity from any producer (or on the pool market once it is in operation) for resale to Eligible Customers. Once the pool market begins to operate, Eligible Customers will still be able to negotiate contracts directly with producers rather than participating in the pool market, provided that they have the necessary authorization from the Energy Authority.

Non-Eligible Customers may only purchase electricity from the distribution company serving the geographic area in which they are located. The tariffs applicable to residential Non-Eligible Customers and tariff limits applicable to other Non-Eligible Customers are established by the Energy Authority and are intended to be the same throughout Italy for each category of customers. In addition to the price of electricity, Eligible Customers (together with Non-Eligible Customers) must pay transmission and

distribution fees and certain charges known as system charges to distributors. You should read “—The new tariff structure” for a discussion of tariffs and tariff limits.

Eligible Customers may choose to remain subject to the regime and tariff structure applicable to Non-Eligible Customers for a period of two years from the date they first qualify as Eligible Customers. This period may be extended by an Eligible Customer for two additional years. Until the pool market for electricity becomes operational, Eligible Customers may also make such an election for a period shorter than two years, but once having done so, must become Eligible Customers at the end of that period.

The Bersani Decree established the following targets with regard to the percentage of electricity consumed by Eligible Customers (in each case including self-consumption):

- 30% of total Italian electricity consumption in 1999;
- 35% of total Italian electricity consumption in 2000 and 2001; and
- 40% of total Italian electricity consumption from 2002.

However, we estimate that Eligible Customers will account for only approximately 30% of total Italian electricity consumption (including self-consumption) in the year 2001. The list of Eligible Customers is publicly available and included 1,209 Eligible Customers (including qualifying consortia) as of May 2001.

The Industry Ministry may lower the consumption thresholds required for customers to qualify as Eligible Customers in order to meet the above-mentioned targets. The consumption thresholds may also be lowered to accelerate the development of competition. To this end, a law enacted in March 2001 lowered eligibility thresholds to include as Eligible Customers all those customers whose annual consumption of electricity in the prior year exceeded 0.1 GWh at a single delivery point. This threshold will come into effect 90 days after the date on which we dispose of the third Genco.

On January 1, 2001, all energy produced from renewable sources under the CIP 6 regime was transferred to the *Gestore della Rete*. The *Gestore della Rete* in turn is making this energy available for sale to Eligible Customers in the free market by means of an auction system. We formerly had been required to purchase substantially all of the electricity produced under the CIP 6 regime at fixed prices. Please refer to “—Purchased Power” for a more detailed discussion of these contracts.

The Single Buyer

The Single Buyer is a joint stock company formed in November 1999 and wholly owned by the *Gestore della Rete*. It is responsible for ensuring the efficient, adequate and non-discriminatory supply of electricity to Non-Eligible Customers. The Single Buyer is expected to become operational together with the pool market, following the enactment of a decree by the Industry Ministry. Electricity distribution companies, including us, may take stakes of up to 10% in the Single Buyer, although the *Gestore della Rete* must remain the majority shareholder.

The Single Buyer will be responsible for purchasing electricity on the pool market or, if authorized by the Energy Authority, directly from producers on the basis of periodic estimates of future electricity demand and Industry Ministry guidelines. The Single Buyer will also be responsible for selling such electricity to distribution companies for supply to Non-Eligible Customers and he may sell back any excess energy directly on the pool market. In order to satisfy demand from Non-Eligible Customers at peak periods, the Single Buyer will be able to contract with producers for reserve capacity.

Until the Single Buyer begins operations, electricity distributors will continue to purchase electricity from generating companies for supply to Non-Eligible Customers. Under the Bersani Decree, the pool market is scheduled to begin operating on January 1, 2001. However, as a result of delays in the implementation of the new system, we do not expect the pool market to begin operations until 2002.

If the Single Buyer begins operations before the pool market is established, it will negotiate contracts with various producers and thereby seek to satisfy the estimated demand from Non-Eligible Customers for the transition period at a minimum aggregate price.

The total payments by the Single Buyer to electricity producers (plus its own operating costs) will need to match the total revenues it earns from Non-Eligible Customers under the regulated tariff structure. As a consequence, the tariffs may need to be readjusted from time to time to reflect the prices actually paid by the Single Buyer, as well as other factors.

Pool Market Regulations

The Bersani Decree provides for the creation of the *Borsa dell'Energia Elettrica*, or pool market for spot trading electricity, administered by an independent entity to serve as Market Operator. In May 2001, the Industry Ministry, acting in consultation with the Energy Authority, approved the regulations for the pool market proposed by the Market Operator. These regulations provide only a general framework for the organization of the market, and are to be supplemented by rules adopted by the Market Operator with the approval of the Industry Ministry, acting in consultation with the Energy Authority.

Under the regulations, transactions between producers and Eligible Customers will take place in different markets in order to ensure steady supply of electricity. In particular, sellers and buyers will submit bids and offers for electricity to be supplied on the day following the transaction in the “day-ahead market” under the supervision of the Market Operator. The Market Operator will be responsible for matching electricity demand and supply and consequently, for the definition of power injection (supply) and withdrawal (demand) schedules. Variations on the schedules defined in the “day-ahead” market shall be negotiated through the “adjustment market.” Network congestion ensuing from transactions negotiated on the day ahead market and the adjustment market will be managed through the “congestion management market” where sellers and buyers can submit bids and offers for the increase or decrease in the volume of energy to be supplied or withdrawn. Reserve capacity will be guaranteed by a special market where the *Gestore della Rete* will buy electricity when needed from certain power plants previously identified by *Gestore della Rete* as power plants that will ensure the availability of reserve power. Finally, balancing of supply and demand due to deviations from actual power injections and withdrawals schedules defined in the markets will be carried out through the balancing market.

Transmission

As noted, we use the term “transmission” to refer to the transportation 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. As part of the implementation of the Bersani Decree, the Industry Ministry has determined that the national electricity transmission network includes all of our very high voltage lines (380/220 kV) and approximately 50% of our high voltage lines (150/132 kV).

The Bersani Decree provides that the transmission of electricity is reserved to the Italian government, but delegates the management and operation of the national electricity transmission network to the *Gestore della Rete*, under a license issued by the Industry Ministry. The Bersani Decree requires the owners of assets included in the national electricity transmission network to transfer to the *Gestore*

della Rete the right to manage and operate those assets. The *Gestore della Rete* may, subject to the authorization of the Industry Ministry, authorize third parties to operate limited portions of the network pursuant to service agreements.

In August 1999, we transferred our electricity dispatching and national transmission network management operations to the *Gestore della Rete*, which at that time was a subsidiary of ours. In April 2000, pursuant to the Bersani Decree, we transferred ownership of the *Gestore della Rete* to the Treasury at no cost. The *Gestore della Rete* operates pursuant to strategic and operational guidelines established by the Industry Ministry in January 2000. The *Gestore della Rete* has responsibility for the planning, operation and control of the national electricity transmission network, with a mandate to ensure the efficiency, adequacy and safety of Italy's electricity supply and equal access to the network for all producers and consumers of electricity. As noted above, the *Gestore della Rete* must give priority for transmission to electricity generated from renewable resources and co-generation in accordance with guidelines to be issued by the Energy Authority. For a discussion of our arrangements with those producers, you should read "—Purchased Power."

The *Gestore della Rete* enters into service agreements with the owners of transmission assets based on a model agreement approved by the Industry Ministry. These agreements regulate the payment of fees and the performance of the obligations concerning the maintenance and upgrading of the national electricity transmission network, and include fees for services supplied by the owners of the network prior to the date of the agreement.

In addition, the Bersani Decree liberalized third-party access to power transmission and distribution networks as of April 1, 1999. The *Gestore della Rete* and distributors must grant free access to such networks to generators and importers of electricity for the purpose of supplying energy to Eligible Customers, subject to payment of the tariffs established by the Energy Authority.

Distribution

As noted, we use the term "distribution" to refer to transportation of electricity from the transmission network to the customer that actually uses the electricity. The principal effects of the Bersani Decree on distribution are:

- The formal adoption of a licensing regime applicable to the distribution of electricity; and
- The promotion of the consolidation of electricity distribution activities.

Requirements

The Bersani Decree requires distribution companies to provide service to all customers who request it, subject to payment of applicable tariffs and to compliance with technical and safety requirements. In addition, the Bersani Decree requires distribution companies that serve more than 300,000 customers to conduct the distribution of electricity to Non-Eligible Customers through separate companies that have such activity as their exclusive purpose. We began operating a separate subsidiary, Enel Distribuzione, for this purpose in October 1999.

Consolidation of the distribution industry

The Bersani Decree seeks to promote the consolidation of the Italian electricity distribution industry by providing for the issuance of only one distribution license within each municipality and establishes procedures to consolidate distribution activities under a single operator in municipalities

where both we and a local distribution company are engaged in electricity distribution. The decree asked operators with distribution networks in the same municipality to submit joint consolidation proposals to the Industry Ministry by March 31, 2000; these proposals are considered to be approved unless the Industry Ministry objects within 60 days.

If a joint proposal for the consolidation of networks in the same municipality was not submitted, or was not approved by the Industry Ministry, only local distribution companies owned or partly owned by a municipality that serves at least 20% of the electricity customers of that municipality could request that we sell to it, by March 31, 2001, our distribution assets in that municipality at a price to be determined by agreement between us and the relevant local distribution company. We estimate that the networks in question represent an aggregate total of approximately 5% of our customers.

To date, we have sold our local distribution network to:

- A.C.E.G.A.S. S.p.A., the municipally owned utility in Trieste, in March 2000; and
- A.M.P.S. S.p.A., the municipally owned utility in Parma, in December 2000.

In April 2001, we agreed to sell our distribution networks in Rome and Formello to A.C.E.A. S.p.A, the utility company serving Rome. In addition, substantially all of the other qualifying distribution companies in municipalities with co-existing networks have made requests to purchase our networks in these cities, including the municipally owned utilities in Milan, Turin and Verona. For more details on these agreements and the consolidation process, please refer to “—Business—Consolidation of electricity distribution networks.”

The Bersani Decree provides that if we had not agreed by September 30, 2000 on a sale price with any of the parties who had made a timely request to purchase a distribution network, the price should be determined by an arbitration panel using accepted valuation methodologies that take into account market prices. The panel should consist of one person nominated by each of the parties and a third person nominated by the President of the court having jurisdiction over the geographic area in which the local distribution company is located. To date, 16 of the qualifying companies have issued a formal demand for price arbitration, including the distribution companies in Milan, Turin and Verona. In the case of Milan, the arbitration panel set the sale price of our network at Lit. 820 billion. We have appealed this decision.

On average, the distribution networks that we will be required to sell are more profitable than our distribution networks, mainly because distribution in metropolitan areas has lower costs. The Energy Authority has indicated that an equalization system will be put in place that may compensate for some or all the higher costs associated with serving non-urban areas. However, to date, the equalization system has not yet begun to operate. You should read “Risk Factors—The Bersani Decree may require us to sell a portion of our distribution networks and our operating profits may decrease as a consequence” for a discussion of the risks we face from this consolidation process and the risks involved for us.

Under the Bersani Decree, local distribution companies owned or partly owned by a municipality that serve at least 100,000 customers may also request an authorization from the Industry Ministry to submit a joint proposal with us for the consolidation of their electricity distribution networks with our networks in adjoining municipalities. Certain distribution companies have expressed their interest in purchasing our electricity distribution networks in adjoining municipalities, particularly companies in Milan, Rome, Trieste, Modena and Brescia. We believe that, under the Bersani Decree, any such sale may occur only upon the agreement of each of the concerned parties, including ourselves.

The new tariff structure

A new tariff regime set by the Energy Authority to regulate the price paid by Non-Eligible Customers for electricity took effect on January 1, 2000. Eligible Customers pay the market price for electricity, as well as regulated transmission fees and system charges set by the Energy Authority. The Energy Authority has also established a mechanism that will allow us to recover a significant portion of our stranded costs through the tariffs paid by all customers.

The new tariff structure has resulted in significant reductions in our tariff revenues for the year 2000 and 2001. These reductions are attributable to lower generation, transmission and distribution fees. Further reductions in fees are expected in 2001 as a result of the implementation of the price cap mechanism to transmission and distribution charges and a 20% reduction in the fixed component of generation price established by the Energy Authority. See “—Tariffs for Non-Eligible Customers.” Further reductions in fees are expected in 2002 in connection with the commencement of trading of the pool market, for generation fees, and for the application of the price cap mechanism to transmission and distribution charges.

Tariffs for Non-Eligible Customers

Under the new structure, after an interim period during which tariffs for all Non-Eligible Customers are set directly by the Energy Authority, the Energy Authority is to only set tariffs for residential customers. This interim period ended at the beginning of July 2000; however, the Energy Authority extended it for us and certain other distributors until December 31, 2000. Tariffs for all other classes of Non-Eligible Customers are set by distributors within certain limits established by the Energy Authority, though the Energy Authority still retains a right of approval.

The limits set by the Energy Authority on tariffs for non-residential customers are of two types. An aggregate limit sets the maximum amount of tariff revenues that each distributor will be allowed to receive from all customers belonging to the same category in a single year. A second limit sets the maximum amount of tariff revenues that any distributor will be allowed to receive from a single customer of a given category. If the limit is exceeded in any given year by less than 5%, the distributor must apply a proportional reduction of tariffs in the following year; if the limit is exceeded by more than 5%, each customer must be reimbursed for an amount equal to its proportionate share of the excess revenues (plus an additional bonus) in the following year. Compliance with the individual limit is ensured at the time tariffs are set by the distributors and approved by the Energy Authority. Within these limits, each distributor is free to offer tariff options to its customers in accordance with a trade policy code aimed at ensuring transparency.

In setting tariffs for residential customers and establishing limits on tariffs for other classes of Non-Eligible Customers, the Energy Authority has sought to allow the recovery by electricity suppliers of:

The costs of supplying electricity, including both:

- Operating costs of generation, transmission and distribution activities, including procurement costs and amortization and depreciation. In order to be recovered, these costs must be both actually incurred by the electricity companies and recognized by the Energy Authority;
- An appropriate return on invested capital, including both equity and debt financing; and

- The costs associated with system charges, which include the costs of complying with public policy requirements for the Italian electricity system, together with the costs of the *Gestore della Rete*, the Market Operator and the Single Buyer.

Generation costs. The first component of the tariffs reflects the generation costs incurred by electricity producers. Until the Single Buyer begins to operate, the Energy Authority determines these costs based on fixed-cost and variable-cost components of production costs. The fixed-cost component, which is intended to reflect non-fuel operating costs, is based on an estimate of the average recognized cost of generation plants in Italy. The Energy Authority established this value for 2000 and will monitor its relationship to the pool price once the pool market begins to operate. In January 2001, due to the delay in the introduction of the pool market, the Energy Authority reduced the fixed cost component by 20%. In order to ensure a gradual transition to the new tariff system, the fixed-cost component included and will include in each of 2000 and 2001 an additional cost component of Lit. 6/kWh. The variable-cost component of the tariffs, which used to be referred to as “Component B,” is intended to reflect fuel costs associated with thermal power generation and purchases of electricity. Pursuant to a decision adopted by the Energy Authority in December 2000, from January 1, 2001 Component B is no longer calculated on a stand-alone basis but is included in the generation cost component of electricity tariffs. As a result, this change has had no significant impact on our operations. You should read “—Charges payable to the Equalization Fund” for a discussion of this tariff component.

After the Single Buyer begins to operate, the price paid to electricity producers will be determined by contracts between the Single Buyer and producers and, once the pool market becomes operational, by the competitive bidding system on the pool market. Consequently, the generation-cost component of the tariff for Non-Eligible Customers will reflect the price of electricity as determined on the competitive generation market.

However, the Energy Authority will monitor this price to ensure compliance with the principles of competition in the generation market. In particular, the Energy Authority will set a price that the Single Buyer and the pool market will use as a reference price. If the price paid by the Single Buyer or the price on the pool market differs significantly from the Energy Authority’s reference price, the Energy Authority may, as an alternative to pursuing different regulatory measures, impose its reference price as the price to be used in calculating the generation cost to be reflected in the tariffs.

Both the price applicable to producers before the Single Buyer begins to operate and the reference price set by the Energy Authority after the Single Buyer begins to operate will apply to electricity produced by all types of generating plants. As a consequence, the generation cost component of tariffs may result in an increase in the relative profitability of:

- Hydroelectric or geothermal generation, as a result of the tariff system’s inclusion of a component calculated with reference to fuel costs, which hydroelectric or geothermal plants do not incur; and/or
- Electricity imported under long-term contracts already effective as of February 19, 1997, which may be cheaper than electricity generated in Italy.

The Energy Authority decided to reduce this potential windfall profit for hydroelectric or geothermal producers by establishing a new surcharge to be paid by these producers to the *Gestore della Rete* with respect to the electricity sold by them. This surcharge partially offsets the stranded cost surcharges paid by customers. You should read “—Stranded costs” for a more detailed discussion of this surcharge.

Transmission costs. The transmission costs taken into account in setting tariffs and tariff limits reflect the fee paid by distributors to the *Gestore della Rete* for the use of the network. The transmission fee pays for a number of network services and for the transportation 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 transmission fee is designed to cover the costs of the network owners and to provide them with a fair return on capital. This fee is paid to the *Gestore della Rete* for use of the national grid and to the operators of the other networks, if any, that are used to deliver the electricity to distributors or Eligible Customers. The components of this fee include:

- The standing charge, which is set on the basis of capacity contractually committed to the customer, the amount of electricity delivered and the time the network is actually in use;
- A fee for use of the system and related services such as regulation of voltage, frequency power switching services, dispatching, monitoring and maintenance of the capacity reserve; and
- A component to cover system charges, as explained in more detail below.

The transmission fee generally does not vary depending on the distance between the site of production and the site of delivery.

Distribution costs. The distribution cost component of the tariff is designed to compensate distributors for the transportation of electricity through the local distribution network and for the sales-related services they provide to final consumers.

This distribution cost component is based on the average costs incurred by all Italian distributors and is designed to cover those costs as well as a specified return on invested capital. Because Non-Eligible Customers in the same category pay the same price for electricity (or, in the case of non-residential customers, benefit from the same price caps) regardless of where in Italy they are located, distributors that serve areas where costs are significantly different from the national average, due to such factors as population density and geography, benefit from comparative advantages or suffer from comparative disadvantages. The Energy Authority has indicated that it will put in place an equalization system to reduce those comparative advantages or disadvantages by providing appropriate compensation. However, to date, this equalization system has not yet begun to operate.

Adjustment of transmission and distribution cost components. In order to reduce electricity prices over time based on efficiency targets set by the Energy Authority, the components of the current tariff relating to the costs of transmission and distribution will be adjusted in each of 2001, 2002 and 2003 through a price cap mechanism. During this 2001-2003 period, tariffs will reflect an annual decrease in real terms of 4% in each of the transmission and distribution cost components. This cap reflects the productivity improvement target that the Energy Authority has assigned to electricity companies for the period. Any improvement in productivity that electricity companies may achieve in excess of the price cap will increase their profits until the end of the period. At the end of the period, the Energy Authority will determine the new tariff basis and the annual decrease cap for the following four-year period, based on the actual increases in productivity achieved by electricity companies during the previous period. The Energy Authority has also created a mechanism to reset the tariff basis so that any benefits resulting from improvements in productivity above the target set for the previous period will be shared between electricity companies and consumers. The Energy Authority has indicated that not less than 50% of these benefits will be passed on to consumers.

Implementation of tariff options

After a six-month transitional period, which ended on June 30, 2000, distributors set the new tariff options. We sent a proposal for public lighting tariffs to the Energy Authority which was approved. We have kept our tariffs for other classes of service unchanged from those in effect in the first half of 2000, except for those applicable to low-voltage power supplied to Non-Eligible Customers for other uses. We have reduced the tariffs for that category by approximately 8% in order to allow us to meet the revenue constraint established by the Energy Authority.

In September 2000, we proposed a new set of tariffs for the year 2001 which was approved by the Energy Authority, in line with its parameters and the price cap mechanism. The new tariff structure allows customers to choose among more flexible options, with prices decreasing for high levels of consumption. In particular, for residential customers, we offered specific new tariffs designed for customers with levels of demand equal to 4.5 kW as well as 6.6 kW and over. For all other customers, several tariff options are offered in addition to those established by the Authority, taking into account variations in seasonal demand and time-of-day demand.

System charges. The new 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:

- Charges concerning the electricity system, which apply to both Eligible Customers and Non-Eligible Customers. These charges, established by the Industry Ministry, consist of:
 - A nuclear surcharge, covering part of the costs incurred by So.g.i.n. 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 we transferred to So.g.i.n.;
 - A surcharge for renewable resources, intended to incentivize generation from renewable resources;
 - Special surcharges covering the cost of supplying electricity at mandated discounts to certain customers (primarily the Italian state-owned railway company and Acciai Speciali Terni S.p.A., both of which transferred electricity assets to us as part of the nationalization of the Italian electricity industry in 1962);
 - Research and development surcharges, covering related costs; and
 - Stranded costs (partially offset by contributions from producers which generate electricity from hydroelectric and geothermal sources and, therefore, do not incur fuel costs). You should read “— Stranded costs” for a discussion of these costs.
- Other general interest charges established by the Energy Authority to adjust or refine the operation of the tariff mechanism (and applicable only to Non-Eligible Customers), which consist of:
 - A transitory surcharge designed to phase-in the effect of the new tariff system on the various categories of Non-Eligible Customers; this surcharge will be reduced by 50% in 2001 and eliminated in 2002;
 - Adjustments to the equalization mechanism, covering possible differences between costs recognized as recoverable by distributors under the current tariff structure and actual tariff revenues;

- A temporary bonus for generation of electricity to be sold to Non-Eligible Customers, which will be eliminated after 2001. This bonus was financed with a specific surcharge in 2000 and is being financed through a specific contribution from hydroelectric producers in 2001; and
- Charges recovered through upward adjustments to the price caps, as established by the Energy Authority (and applicable only to Non-Eligible Customers), which cover:
 - Incentives for the enhancement of the quality of service;
 - Costs deriving from unforeseeable events, changes in the regulatory framework or new obligations for universal service;
 - Costs deriving from demand side management initiatives intended to promote a more efficient use of resources by electricity customers, including information campaigns; and
 - Additional recognized costs incurred in connection with the offer of value-added services in addition to basic options.

Stranded costs

Stranded costs are current costs deriving from contractual commitments or investment decisions that electricity companies:

- Undertook for reasons of public policy;
- Undertook at a time when the electricity markets were not yet open to competition; and
- Could have been recovered in a monopoly regime but could not 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 minimize 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.

Our stranded costs mainly consist of costs resulting from requirements that were imposed in the past on the design and operation of our generation plants. In particular, because of governmental policies, we built most of our plants to ensure a high degree of flexibility in the type of fuel that they could use.

The Industry Ministry and the Treasury Ministry have determined which costs are to be considered as stranded costs and established a system to recover them. Commitments for investments we undertook prior to February 19, 1997 relating to generating plants currently in service are regarded as stranded costs, except for investments in plants that benefit from the CIP 6 regime and hydroelectric and geothermal plants. You should read “—Business—The Enel Group—Purchased Power” for a description of the CIP 6 regime. Under the recovery program adopted by the Industry Ministry in January 2000 and amended in April 2001, we will be allowed to recover a significant portion of our stranded costs between 2000 and 2006.

The Energy Authority will assign recognized revenues and a reference level of production to each of our plants. Recognized revenues are based on operating costs, depreciation and a fair return on investment. During the recovery period, the Energy Authority will, at the end of each year, compare these recognized revenues for each plant with the fixed costs recovered through the pool price. If the recognized revenues are higher in aggregate than those fixed costs, we will be entitled to recover an amount equal to the difference. Pending the implementation of the pool market, by a decision issued in May 2001, the Energy Authority established a formula for the calculation of the electricity price and of plants' variable costs for the purposes of recovering stranded costs. Stranded costs are financed in part through the surcharge levied by the Energy Authority on hydroelectric and geothermal producers. See "—The new tariff structure – Generation costs."

If plants for which stranded costs have been recognized are sold, the purchasers are entitled to recover those costs on the same terms, so that total stranded costs available for recovery by us and new owners will not be higher than those available to us had the plants not been sold. With respect to the sale of Elettrogen, in a decision issued in May 2001, the Energy Authority determined the values of recognized revenues and reference level of production necessary to calculate Elettrogen's stranded costs recoverable for the year 2000.

Our contractual obligations in connection with our imports of liquefied natural gas from Nigeria are also regarded as stranded costs. These stranded costs will be recovered over a ten-year period, which may be extended if certain conditions are satisfied.

The maximum total amount available to Italian electricity companies for recovery as stranded costs is Lit. 15,000 billion. The plan for the recovery of stranded costs must be submitted by the Italian Government for approval by the European Commission to ensure compliance with the Electricity Directive and with the European Union's rules on governmental assistance to private businesses.

During the recovery period, the impact of these stranded costs surcharges on the tariffs paid by consumers will be partially offset by contributions paid to the *Gestore della Rete* from generating companies producing electricity from hydroelectric or geothermal plants, which do not incur fuel costs. These contributions are calculated every two months as a percentage of the difference between the average national wholesale price of electricity (weighted by the quantity of electricity produced by each plant) during the two month period, and the average fixed unitary costs for each plant, determined on an annual basis. The percentage will decrease in each of the three two year periods between 2001 and 2006, when the contributions will be eliminated.

Charges payable to the Equalization Fund. Revenues from certain tariff components are remitted to and managed by the *Cassa Conguaglio per il Settore Elettrico*, or Equalization Fund, a public entity charged with redistributing such revenues to the electricity companies entitled to receive them. These revenues include those deriving from specific system charges and, until December 31, 2000, included those deriving from the so-called "Component B."

Component B was intended to cover the "energy cost contribution" recognized for thermal power generation and the purchase of electricity. In order to create incentives for the efficient production of thermo-electric power in Italy, this contribution was calculated on the basis of the estimated national average variable unit cost of power generation, unlike the former thermal charge account system, which served merely to reimburse power generation costs. Specifically, the Energy Authority calculated the energy cost contribution by reference to an index of weighted average industry fuel prices (60% fuel oil, 23% natural gas and 17% coal) and a specific consumption index equal to 2,290 kCal/kWh. Contributions in respect of imported power were calculated so as not to exceed those for domestically produced electricity. Until December 31, 2000, the calculation of the contribution and, consequently, of

Component B, was updated every two months by the Energy Authority on the basis of variations of the above-mentioned index of fuel prices. Electricity distribution companies then collected amounts with respect to Component B from users and paid them into the Equalization Fund. Every two months, the Equalization Fund redistributed these amounts in the form of equalization grants among qualifying producers of electricity. These Equalization Fund contributions were abolished in 2001. Consequently, Component B is no longer calculated on a stand-alone basis by the Energy Authority. A “fuel cost component” equivalent to component B is now included in the generation cost component of electricity tariffs and is calculated and updated by the Energy Authority in the same manner as Component B. As a result, this change has had no significant impact on our operations.

Tariff categories

The Energy Authority has simplified tariff categories by defining nine classes of consumers:

- low-voltage domestic consumers (residential customers);
- low-voltage public lighting;
- low-voltage Eligible Customers for other uses;
- low-voltage Non-Eligible Customers for other uses;
- medium-voltage public lighting;
- medium-voltage Eligible Customers for other uses;
- medium-voltage Non-Eligible Customers for other uses;
- high-voltage Eligible Customers; and
- high-voltage Non-Eligible Customers.

The Energy Authority has established a new tariff system for residential customers that will enter into effect on January 1, 2003. Under this system, all residential customers will pay the same tariff, regardless of their location. Tariffs for non-residential customers are set by distributors and may therefore vary within limits set by the Energy Authority that apply to all non-residential customers in any given category, regardless of their location.

The changes in the tariff structure primarily benefit low voltage non-residential customers, such as those in the commercial and other services sectors. We expect that the new tariffs will provide an incentive for these customers to increase their level of electricity consumption.

The Energy Authority set these new tariffs to reflect the cost of delivery, reducing or eliminating cross-subsidies between electricity users. The new tariff structure establishes that subsidies currently applied to residential customers who only use a small amount of electricity will be abolished at the end of 2002. In the interim, a transitory regime has been put into place, during which time prices of subsidized and non-subsidized supplies gradually converge to a single tariff applicable to all residential consumers. In the future, special tariffs could be applied to a limited number of customers in unfavorable economic conditions, charging the corresponding costs to the remaining domestic customers by means of a specific surcharge.

Quality of service regulation

The Energy Authority has also established a system of bonuses and penalties to enhance the quality of service provided by electricity companies. Quality of service is measured in terms of waiting time for the performance of the most frequent commercial activities (such as connection cost estimates, connections, disconnections and reconnections) and the frequency and total duration of service interruptions and is assessed with reference to targets set by the Energy Authority. Service interruptions are assessed with reference to annual targets set by the Authority. These quality of service regulations entered into force on July 1, 2000.

Distributors that outperform the targets are to be remunerated through bonuses paid through adjustments to the price cap mechanism. Penalties are imposed if the targets are not met. We believe that the level of revenues expected under the current tariff structure will allow distributors to cover the costs they need to incur to meet the above-mentioned targets.

Impact of new tariff structure

Following the introduction of the new tariff framework in January 2000, average tariff levels for sales of electricity to Non-Eligible Customers declined by 10.7%. We expect that average tariff levels will decrease further in 2001. Further reductions are expected in 2002 as a result of the implementation of the price cap on the transmission and distribution components of tariffs. The effect of these reductions on our revenues has been mitigated and we expect that it will be mitigated by the bonus for the electricity produced and devoted to Non-Eligible Customers (amounting to Lit. 6/kWh in 2000 and 2001) and the positive impact of the gradual implementation of the new tariff structure. These expectations are only approximations and are subject to change if regulatory tariff policies change or as a result of changes in electricity consumption.

The historical regulatory framework

Before the nationalization of the Italian electricity industry in 1962, the generation, transmission and distribution of electricity were largely unregulated. The law nationalizing the electricity industry in 1962 established Enel, and delegated to us the generation, transmission, transformation, distribution and sale of electricity within Italy and the import and export of electricity to and from Italy. Three types of electricity producers were exempted from our monopoly:

- A number of municipally owned electric utilities;
- A number of industrial companies generating electricity for their own consumption, provided that at least 70% of the electricity they generated was used in their own industrial processes and any surplus production was sold only to us; and
- Small producers, defined as companies distributing less than 15 GWh per year.

Since 1962, legislation has progressively weakened our monopoly by permitting additional categories of entities to operate in the electricity industry. In particular, Italian legislation has sought to provide incentives for the production of energy from renewable resources. For example, Law 393/1975 authorized all municipalities and provinces (including those that were not so authorized under the Nationalization Law) to generate electric power from renewable resources and/or in combination with co-generation, burning of urban waste and desalinization. Law 308/1982 authorized the generation by private parties of electricity from renewable resources and/or from co-generation plants with an installed capacity of less than 3 MW, provided that all production of electricity in excess of certain limits was sold

to us. Law 9/1991 authorized independent producers to generate electricity from renewable resources regardless of the installed capacity of the power plant, abolished the rule that industrial producers had to consume at least 70% of the power they generated for their own use or for the use of affiliated companies and authorized the free movement of electricity among specified categories of customers.

Historical tariff structure

The electricity tariff in force before implementation of the new tariff structure in January 2000 was made up of the following items: (i) standing charge, (ii) first component of unit price, (iii) second component of unit price, (iv) charges payable to the Equalization Fund and (v) taxes.

The standing charge, a fixed component of the tariff, reflected the price of the contracted capacity required by a customer, independent of the actual level of consumption. The first component of unit price reflected the price of the electricity which covered, together with the standing charge, the electricity system's fixed costs. The second component of unit price reflected the variable electricity production costs (fuel and import costs).

The above items varied depending on the type of customer:

- *Public lighting;*
- *Residential.* Tariffs were lower for the primary residence of customers. In addition, discounts were applied for usage below certain thresholds of monthly consumption;
- *Commercial and industrial users;*
- *Agricultural.* These tariffs varied depending on the type of use, the region and the particular agricultural activity; and
- *Electricity distributors.*

The above items also varied depending on:

- Electricity voltage at delivery; if the voltage at delivery was low, it meant that we provided a more extensive transportation and transformation service;
- Capacity of the supply;
- Duration of usage; and
- Time of usage.

Charges payable to the Equalization Fund included certain system charges and Component B. You should read “—The new tariff structure—Charges payable to the Equalization Fund” for a discussion of these charges.

In addition, under the historical tariff structure, charges payable to the Equalization Fund also included Component A1, a charge intended to cover the deficit during the years 1994, 1995, 1996 and the first six months of 1997 in the *conto onere termico*, or thermal charge account, a fund established in order to partially cover the fuel costs associated with thermoelectric power generation. The Energy Authority

abolished Component A1 of the electricity tariff effective January 1, 1999, as a result of the elimination of the deficit in the thermal charge account.

Prices of electricity

The table below shows the average level of prices (expressed in Lit./kWh and assuming constant consumption) paid by customers to whom we directly supplied electricity during the period from January 1996 to December 2000, divided by type of customer, and the impact of the new tariff that came into effect in January 2000.

Type of customers	January 1996	January 1997	January 1998	January 1999	January 2000	December 2000	% change January 1996/ January 2000	% change January 1999/ January 2000	% change January 2000/ December 2000
Residential									
Extariff	164.4	147.0	147.0	147.0	148.2	148.2	-9.9	0.8	0.0
Component B	52.6	57.1	65.6	48.4	60.9	87.1	15.8	25.8	43.0
Other Components....	17.0	21.3	17.1	19.9	16.5	13.6	-2.9	-17.1	-17.6
Before tax	234	225.4	229.7	215.3	225.6	248.9	-3.6	4.8	10.3
Taxes.....	51.9	51	51.5	50	51.1	53.4	-1.5	2.2	4.5
Total	285.9	276.4	281.2	265.3	276.7	302.3	-3.2	4.3	9.3
Industrial									
Extariff	86.4	86.5	86.6	86.6	72.6	71.2	-15.6	-16.2	-1.9
Component B	39.6	43.2	49.7	36.1	59.4	85.0	50.0	64.5	43.1
Other Components....	14.5	17.9	14.5	18.5	16.9	16.1	16.6	-8.6	-4.7
Before tax	140.5	147.6	150.8	141.2	148.9	172.3	6.0	5.5	15.7
Taxes.....	18.2	18.2	18.2	18.2	18.4	18.4	1.1	1.1	0.0
Total	158.7	165.8	169	159.4	167.3	190.7	5.4	5.0	14.0
Services									
Extariff	148.1	148.1	148.1	148.1	126.3	122.0	-14.7	-14.7	-3.4
Component B	51.2	55.8	64.2	46.5	64.2	91.8	25.4	38.1	43.0
Other Components....	17.2	21.4	17.1	19.5	26.5	22.6	15.4	35.9	-14.7
Before tax	216.5	225.3	229.4	214.1	217.0	236.4	0.2	1.4	8.9
Taxes.....	36.2	36.6	37.4	36.6	36.5	38.1	0.3	-0.3	4.4
Total	252.7	261.9	266.8	250.7	253.5	274.5	0.2	1.1	8.3
Average Direct Customers									
Extariff	123.1	118.9	119.0	119.0	106.5	104.5	-13.5	-10.5	-1.9
Component B	45.8	49.8	57.3	41.8	61.1	87.1	33.4	46.2	42.6
Other Components....	15.8	19.7	15.8	19.1	20.7	17.8	31.0	8.4	-14.0
Before tax	184.7	188.4	192.1	179.9	188.3	209.4	1.9	4.7	11.2
Taxes.....	31.3	31.2	31.5	31.0	31.4	32.1	0.3	1.3	2.2
Total	216.0	219.6	223.6	210.9	219.7	241.5	1.7	4.2	9.9

From January 1996 to January 2000, our average price to final customers increased by 1.7% in nominal terms, which corresponds to a decrease of 5.7% in real terms. Price trends are different among type of customers. Prices to residential customers during that period decreased by 3.2% or 10.4% in real terms, while price to industrial customers increased by 5.4% in nominal terms, which corresponded to a decrease of 2.3% in real terms.

From January to December 2000 our average price to final customers increased by 9.9% in nominal terms, which corresponds to an increase of 7.1% in real terms. The increase was due to a 42.6% increase in fuel costs, as reflected in the corresponding increase of Component B, partially offset by a 1.9% decrease of the fixed costs component of the tariff and a 14% decrease of other components. Prices for residential customers during the same period increased by 9.3% in nominal terms, corresponding to a

6.5% increase in real terms, while prices for industrial customers increased by 14% in nominal terms, corresponding to an 11% increase in real terms.

Taxes

Since January 1, 2001, electricity services are subject to three indirect taxes, the first two of which are not applicable to residential customers who qualify for the social protection pricing scheme:

- A state tax for residential uses (of Lit. 9.10/kWh) and for other uses (of Lit. 6/kWh excluding users with consumption over 1.2 GWh per month);
- Additional local taxes that vary from Lit.18/kWh up to a maximum of Lit. 39.5/kWh; and
- Value-added tax of 20% for all users with the exception of residential and industrial customers (who are taxed at a rate of 10%).

A previous additional state tax that varied from Lit. 4.5/kWh to Lit. 10.5/kWh was abolished in January 2001.

Telecommunications

The Communications Authority, established in 1997, regulates all aspects of the fixed-line telephony and mobile telephony services and Internet markets. Its regulatory powers include licensing, interconnection, frequency allocation, numbering, universal service obligation, tariff regulation and rebalancing and arbitration of disputes between carriers. Italian regulations require telecommunications operators to obtain a license or authorization to provide fixed-line voice or mobile telephony, data transmission and Internet services.

In its 1998 and 1999 Annual Reports, the Communications Authority set forth the following main objectives:

- To promote convergence among mobile telephony, fixed-line telephony, television and Internet services as well as the development of third-generation wireless and mobile systems;
- To introduce further competition into the Italian telecommunications market; and
- To promote liberalization in the broadcasting and media industry.

Since February 1998, the Communications Authority has issued telecommunications licenses to approximately 200 operators, including approximately 150 operators for fixed-line voice telephony services. There are also four GSM mobile telephony operators in Italy.

Interconnection

Telecom Italia, the former monopoly telephone services provider, owns and operates the largest fixed-line voice telephony network in Italy. As a result, other operators' ability to interconnect with Telecom Italia's network significantly affects their ability to provide fixed-line voice telephony and other telecommunications services. Currently, Telecom Italia is required to set interconnection rates subject to Communications Authority approval to ensure that interconnection rates reflect costs and comply with the recommended European Union benchmark levels. The Communications Authority must also approve the

interconnection rates Telecom Italia charges for calls originated on its fixed network and terminated on mobile networks.

Universal Service

Current regulations allow the Communications Authority to require other voice telephony operators to compensate Telecom Italia for the costs the former incumbent provider incurs in connection with its obligation to provide universal service, defined as a minimum set of services of a given quality, available to end users regardless of their geographical location and at an affordable price. In 2000, the Communications Authority determined that Telecom Italia, Infostrada, Telecom Italia Mobile and Omnitel would have to make contributions for a total of Lit. 120 billion to the universal service fund. In future years, the Communications Authority may determine that other operators, including WIND, must contribute to this fund.

Fixed-line voice telephony

The Communications Authority and the Ministry of Communications have also sought to promote competition in the fixed-line voice telephony services market by:

- Introducing a price-cap method for the determination of Telecom Italia's rates for fixed telephony services to final customers and rebalancing those rates with the aim of increasing monthly fees and decreasing long distance and international rates;
- In 1999, introducing carrier selection, which allows customers to select carriers on a call-by-call basis for both long-distance and local calls by dialing a set prefix before making a call;
- Introducing carrier pre-selection at the end of 1999, which allows customers to use alternative carriers' networks for all of their local, long-distance, fixed-line-to-mobile and international calls without dialing a carrier selection code. Carrier pre-selection became fully operational in the first quarter of 2001;
- Adopting in December 1999 rules on fixed telephony number portability, which allows customers to keep the same telephone number when they change carrier; and
- Unbundling the local loop of Telecom Italia, which will allow competing carriers access to the so-called "last mile", or the wires leading directly into customers' homes or offices; and, prior to the unbundling of the local loop, establishing the economic conditions under which Telecom Italia must offer access to its network so as to enable its competitors to offer x-DSL services. Telecom Italia is currently offering such access under the conditions established by the Communications Authority in a decision issued in January 2001.

Mobile telephony

Telecom Italia Mobile, Omnitel Pronto Italia, WIND and Blu are currently the four operators in the Italian mobile telephony services market. In 1999, the Communications Authority determined that Telecom Italia Mobile and Omnitel Pronto Italia are operators with significant market power and, as such, will have to offer other operators non-discriminatory and cost-based interconnection rates. Blu, a joint venture in which Autostrade Italiane and British Telecommunications have the largest interests, launched its commercial service in June 2000.

In October 2000, WIND bid for and won one of five government-auctioned licenses for UMTS, or third-generation mobile services, at a price of Lit. 4,700 billion. The UMTS license will be effective as of January 1, 2002 for a term of 15 years. UMTS services are expected to become available by 2002.

Internet and electronic commerce

Internet operators must obtain an authorization to provide Internet services from the Communications Authority. However, Internet service providers are not subject to universal service obligations, the tariffs regime or the other strict regulatory requirements applicable to fixed-line voice telephony and mobile telephony services operators.

By providing for reverse interconnection, whereby new operators undertake to terminate calls coming from the Telecom Italia network in exchange for a fee, the current regulatory regime has made it economically feasible for new telecommunications operators to offer Internet services at prices equal to the standard rate for local calls and without any additional fees.

Several other regulations affect providers of Internet-based services. In February 1999, the Italian Government implemented new rules on electronic signatures which are designed to help support the development of electronic commerce in Italy. These rules seek to provide full enforceability of commercial transactions in electronic form. Electronic commerce also falls within the scope of European Union and Italian legislation on consumer protection, and in particular that of laws regarding the processing of personal information and protection of privacy. Providers of publicly available telecommunications services are required to take measures to safeguard security of their services and of subscribers' personal data. In addition, in June 2000, the European Union adopted a directive on legal aspects of electronic commerce aimed at ensuring the free movement of electronically provided services, including electronic commerce, in the EU internal market.

Gas

Italian regulations enacted in May 2000 pursuant to EU Directive 98/30 (which mandated the general liberalization of natural gas markets in the member states) seeks to introduce competition into the Italian natural gas market through the liberalization of the import, export, transport, dispatching, distribution and sale of gas.

The regulations require companies engaged in the transport and dispatching of gas to allow access to unaffiliated users who request connection to their networks, provided that they have enough capacity and that giving such access is economically and technically feasible. Distribution of gas also requires a concession awarded by municipal authorities pursuant to tender procedures. The concessions will be for period no longer than 12 years. Existing concessions in Southern Italy granted pursuant to competitive tenders will continue in force for their current term, or until 2015, whichever is earlier, so long as they do not extend beyond 2015. Other existing concessions will also continue for their original term so long as such term does not exceed five years, though a five-year extension may be obtained.

After January 1, 2003, only entities authorized by the Industry Ministry will be permitted to sell gas to Eligible Customers, and no single company may have a 50% or higher market share of the Italian natural gas market. Under the regulations, Eligible Customers are those who buy gas for the generation or co-generation of electricity and customers whose annual consumption of gas exceeds certain thresholds. However, the regulations provide that, beginning in 2003, all gas consumers will be able to choose their supplier freely.

In order to further promote competition, no single importer will be permitted to import more than 75% of the total volume of natural gas used in Italy each of the years 2001 and 2002. This limit will decline by 2% per year until 2010. In addition, the decree requires the Industry Ministry to authorize gas imports from non-EU member states.

Storage operators must obtain a concession from the Industry Ministry. Concession holders are obliged to grant third parties access to their gas stores. Importers are required to create strategic storage reserves equal to 10% of the gas they import.

Water

Italian water regulations place primary control of water resources in the hands of regional and local public authorities, who have been granted oversight of regional water resources and aqueducts. Law n. 36 of 1994, the *Galli Law*, introduced a regulatory framework providing for:

- provincial and municipal authorities' ownership of water resources, with management contracted out to entities such as private companies, utilities owned by local public entities or other specified entities; the maximum duration of concessions to the use of water is limited to 30 years;
- division of the national territory into so-called "optimal territorial zones" to maximize efficiency in the management of the national water system as a whole; and
- determination of a reference tariff that accounts for costs as well as provision of a stabilizing mechanism to prevent excessive tariff increases.

To date, the *Galli Law* has been implemented in only a few regions of Italy.

In addition, the Italian Budget Law for the year 1996 provided that all public entities managing aqueducts be transformed into joint stock companies and privatized.

Environmental Matters

Our electricity operations 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 principal objective of our environmental policy is to comply with all relevant legislation and to seek to reduce adverse effects that our activities may have on the environment. Since 1996, we have issued a public environmental report on a yearly basis. We believe that environmental performance will represent an increasingly important competitive factor in a liberalized market.

Environmental regulations affecting our business primarily relate to electromagnetic fields, air emissions, water pollution, waste disposal, noise and the clean-up of contaminated sites. The principal air emissions of fossil-fueled electricity generation are sulfur dioxide (SO₂), nitrogen oxides (NO_x), carbon dioxide (CO₂) and particulate matters such as dust and ash. A primary focus of the environmental regulations applicable to our business is an effort to reduce these emissions. You should read "—Business—The Enel Group—Generation—Thermal production" for a discussion of our investments to comply with these regulations.

Electromagnetic fields

In 1992, the Italian government adopted a regulation relating to exposure to electromagnetic fields, which applies to the extremely low frequency (50 Hz) used for the transmission, distribution and consumption of electricity. The government supplemented the regulation with an additional decree in 1995. This regulation sets:

- Maximum levels of exposure to electromagnetic fields from new and existing transmission and distribution lines and distribution substations. Compliance with maximum exposure limits for already installed lines generally involves increasing the height of towers carrying lines where necessary. We have submitted to the Environment Ministry plans to bring into compliance each of our approximately 130 transmission and distribution lines and distribution substations affected by the regulations. Approximately half of our plans have already been approved by the Ministry and we are awaiting approval of the others. We will complete implementation of compliance measures relating to these maximum exposure limits by 2004, as required under the regulation.
- Minimum distances between transmission or high-voltage distribution lines or substations and residential buildings, office buildings and similar areas for lines built after the adoption of the 1992 regulation. The minimum distance requirements for transmission and distribution lines installed after the adoption of the 1992 regulation result in distances for these lines that exceed what would be required to comply with the maximum exposure levels. All of our lines installed after the adoption of the 1992 regulation are in compliance with the minimum distance requirements.

The above regulation of electromagnetic exposure complies with the maximum exposure limits set by international organizations such as the International Radiation Protection Association, the International Non-Ionizing Radiation Committee and the International Commission on Non-Ionizing Radiation Protection, and those set by a European Union recommendation issued on July 12, 1999.

In September 1998, the Italian government adopted a regulation setting limits to exposure to electromagnetic fields generated by high frequency infrastructure such as the transmission stations that WIND uses to provide mobile telephone services. This regulation:

- Sets maximum exposure levels;
- Sets “caution levels” (for buildings that are occupied for at least four hours per day) and “quality targets” to be met by operators;
- Gives Italian regional authorities the power to regulate the installation and modification of high-frequency infrastructure to ensure implementation of the regulation and responsibility for monitoring compliance with the maximum exposure levels and required preventive measures; and
- Requires owners of high-frequency infrastructures that do not comply with the maximum exposure levels and with the preventive measures to undertake any remediation measures that the regional authorities require.

We believe that WIND’s high-frequency infrastructures comply with the above requirements.

In February 2001, the Italian parliament passed a new law on electromagnetic field exposure. The 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 infrastructures, such as electricity transmission and distribution lines and substations, and high-frequency infrastructures, such as

the transmission stations that WIND uses to provide mobile telephone services. The new law may make it more difficult to install new transmission and distribution lines and substations in the future and may limit WIND's ability to expand the radio coverage for its operations.

Furthermore, the new law provides for the adoption and implementation of programs to restructure electricity transmission and distribution lines, substations and high frequency infrastructures, in accordance with maximum exposure levels, caution levels and quality targets to be set by the Italian government. Until such limits are set, the limits provided for by the regulations of 1992 and 1998 and the decree of 1995 mentioned above will continue to apply.

Current limits for high-frequency infrastructures are expected to continue unchanged. If the Italian government were to set limits for low-frequency infrastructures that are stricter than current limits in order to comply with the requirements of the new law, we would be required to upgrade, move or make other changes to some of our existing electricity lines and transmission and distribution facilities. Although with respect to electricity transmission and distribution lines and substations, the new law requires the Energy Authority to set the criteria, terms and conditions for the recovery of the costs that the owners of such lines and substations bear in implementing the restructuring plans, actual reimbursements we receive may be lower than our actual cost.

In addition, the Bersani Decree requires that the *Gestore della Rete* pay to the owners of transmission lines consideration for the use of the lines which adequately reflects the costs which these owners have incurred to comply with regulatory requirements. You should read “—Business—The Enel Group—Transmission” and “—Electricity Regulation—The new regulatory framework—Transmission” for a more detailed discussion of the *Gestore della Rete* and “Item 3. Key Information—Risk Factors” for a more detailed discussion of the risks electromagnetic field-related regulation poses for our business. You should also read “Item 8. Financial Information—Other Financial Information—Legal Proceedings” for a discussion of certain legal proceedings against us relating to electromagnetic fields.

Principal EU legislation and international treaties regarding SO₂ and NO_x

The principal EU directive on air emissions affecting the electricity industry is the large combustion plants directive, or LCPD. The LCPD requires each European Union 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 July 1, 1988 and to establish emission limits for SO₂, NO_x and particulate matter from individual generation plants licensed after July 1, 1988. The European Commission is currently reviewing the LCPD and may issue a new directive in 2001.

Italy is 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.

Principal Italian legislation regarding SO₂ and NO_x

Italy implemented the LCPD by a ministerial decree in 1989, which established strict limits on emissions from new plants and required the gradual reduction of aggregate emissions from plants licensed prior to July 1, 1988. In some cases the Italian limits are stricter than those imposed by the protocols and the LCPD. The following tables show the SO₂ and NO_x aggregate emission reduction targets of the 1989 Italian ministerial decree and our actual level of emission reductions in each of 1993, 1998 and 2000:

Reductions of SO₂ emissions against 1980 levels

<u>Year</u>	<u>Target</u>	<u>Enel's result</u>
1993	30%	57%
1998	39%	62%
2000	-	73%

Reductions of NO_x emissions against 1980 levels

<u>Year</u>	<u>Target</u>	<u>Enel's Result</u>
1993	2%	19%
1998	30%	51%
2000	-	64%

In addition, in 1990 Italy established a regulation limiting emissions of polluting substances from thermal plants licensed before July 1, 1988 that is stricter than the LCPD and covers a much broader range of pollutants. This regulation requires that individual existing thermal plants in Italy reduce emissions to levels similar to those established under the LCPD for individual plants licensed after July 1, 1988. This regulation also provides a time schedule for the implementation of environmental compliance measures at existing plants.

In response to this regulation, we implemented in 1990 a significant program of environmental measures that affect our entire thermal generation operation. We submitted this program to the relevant ministries of the Italian government, including those for industry, environment and health. This program provides for modifications to both physical plant and operating practices. The following table shows the targets which Italian regulation provides for the implementation of these environmental compliance measures for generating facilities and our levels of implementation for the relevant periods. Both the targets and our results are expressed as percentages of the total installed thermal capacity of generating facilities for the periods indicated. Our levels of implementation for 2002 are estimated.

<u>At December 31,</u>	<u>Target</u>	<u>Enel's Adopted or Planned Measures</u>
1997	35%	41.5%
1999	60%	62.3%
2002	100%	100%

In 1997, the Italian Parliament imposed a tax on total SO₂ and NO_x emissions from thermal plants that have a nominal capacity of greater than 50 MWh. These plants are the same plants as those regulated under the LCPD. In 2000, our costs in connection with this tax were approximately Lit. 53 billion.

CO₂ emissions

Both the European Union and Italy are signatories to the Kyoto Protocol, which was signed under the United Nations Framework Convention on Climate Change. 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, or GHGs, listed in the Kyoto Protocol over the 2008-2012 period by 6.5% from their 1990 levels.

In implementing the Kyoto protocol, on November 19, 1998, the Italian interministerial committee for economic planning issued the guidelines for Italian policies and measures for the reduction of GHG emissions in order to implement the Kyoto Protocol. These guidelines set targets for CO₂ and other GHG emissions to be achieved through measures concerning various sectors of the Italian economy, including reduction of carbon produced in thermal electricity generation, increased use of electricity generation from renewable resources and demand side management to increase the efficiency of energy use. In 1999, we produced approximately 20% of total GHG emissions in Italy.

In July 2000, we signed a voluntary undertaking with the Environment Ministry and the Industry Ministry. Under this agreement, we undertook to reduce the annual level of CO₂ emissions produced by our plants during the period between 2002 and 2006 from our level of emissions in 1990. The undertaking anticipates a number of measures to reduce GHGs emissions, including employing high-efficiency technologies, such as combined cycle conversions, promoting the use of renewable resources and developing innovative generation technologies using biomass and other wastes. We also expect to take advantage of the flexibility provided under the Kyoto Protocol for reducing GHGs emissions through joint projects in industrialized and developing countries and through the national or international trading of carbon or emission credits.

In January 1999, the Italian government introduced a carbon tax in accordance with applicable European Union directives. Under the current Italian implementing legislation, the amount of the tax, which is based on fossil fuel consumption, was initially scheduled to increase on an annual basis from 1999 through 2005, but has been frozen for the years 2000 and 2001 at the level for 1999. The legislation also establishes the possibility of review or cancellation of the tax if other EU member states have not adopted similar measures by 2001. On the basis of current forecasts of future fuel prices, we believe that application of the carbon tax as currently formulated could have a significant impact on the economic viability of our oil-fired plants by the year 2005, should the tax rates then reach their maximum levels. As part of a Europe-wide initiative to address the impact of the carbon tax, Enel has proposed to the relevant ministries that the Italian government adopt a different method for calculating the tax which would apply an equal amount of tax per unit of CO₂ output, without regard for the type of fuel used to produce the energy in question. We believe that such a policy would produce the targeted reductions in CO₂ emissions without creating unequal burdens on certain types of generating facilities, particularly oil-fired and base load plants, no matter what their actual level of emissions. In 2000, our carbon tax liability amounted to approximately Lit. 75 billion.

PCBs and asbestos

In May 1999, the Italian government adopted a legislative decree concerning the recovery and disposal of electric transformers and other equipment containing polychlorinated biphenyls, or PCBs. Pursuant to this decree, we are delivering all of our equipment containing PCBs to companies authorized to recover and dispose of such equipment. We are also delivering waste products containing asbestos to specialized companies authorized to treat and dispose of asbestos. Such waste products derive from the clean-up of our plants we conduct in accordance with our general maintenance and environmental clean-up programs.

Water pollution prevention

We are subject to environmental laws and regulations limiting heat and other characteristics of water discharges from our thermal plants and liquid waste from our hydroelectric plants. In May 1999, the Italian Parliament adopted a new law for the prevention of the pollution of fresh and salt water, which was amended in August 2000. We believe that the rules concerning heat limits of water discharges from power plants into rivers and coastal waters do not materially affect the operation of our plants, as

discharges from our plants have historically been within the limits set by those rules. Similarly, we believe that the water treatment facilities already operating in our generation plants are in line with the new requirements on liquid waste.

Solid waste management

In February 1997, the Italian government issued a legislative decree implementing the EU directives on solid waste management. In accordance with this decree, we have increased the level of recycling of our waste. We have implemented specific measures concerning fuels derived from waste, which we intend to use in dedicated plants or together with coal at our thermal generation plants.

Site clearance

New legislation provides for ground and underground inspections to evaluate the possible contamination of sites, particularly in areas declared to be of national interest, using specific chemical, physical and historical analyses. If sites we own are found to be contaminated, the current regulation requires that we undertake a program of site clearance and restoration. In that case, under the new legislation the Italian government may provide financial support for restoration of contaminated sites located in areas of national interest. Based on our environmental compliance practices and the current regulatory regime, we do not expect to have significant liability associated with contamination of sites being inspected.

Landscape safeguards

We have taken the following actions to reduce the environmental impact of our transmission and distribution lines:

- Re-using routes of previous power lines wherever possible;
- Soliciting proposals internationally for the design of new towers for our transmission 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;
- 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, we have built approximately two-thirds of our network in this way).

We limit our 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 logistic and environmental problems. Between 1994 and 2000:

- We added approximately 26,000 km of aerial insulated and underground medium voltage cables. In 2000, aerial insulated cables and underground cables represented 35.9% of our medium voltage lines, compared to 29.8% in 1994; and

- We added approximately 98,000 km of aerial insulated and underground low voltage cables. In 2000, aerial insulated cables and underground cables represented 80.5% of our low voltage lines, compared to 72.8% in 1994.

Environmental registrations, certifications and authorizations

We have joined 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, and includes ISO 14001 certification for registered plants and assets. We are committed under the initiative to obtain EMAS registration for 26 of our generation plants, representing 55% of our installed capacity. As of June 2001, 12 of our plants, representing approximately 26% of our installed generating capacity, have obtained either the EMAS registration or the ISO 14001 certification.

In August 1999, the Italian government enacted a legislative decree implementing the 1996 EU directive on the prevention and reduction of pollution. This legislative decree requires all industrial plants to operate under a new integrated environmental license by 2007 and make use of the best techniques available for the prevention and reduction of pollution. The new license will set pollution limits and will be reviewed every five years or at any time plants undergo significant renovation. Licenses for EMAS-registered plans will be reviewed every eight years.

Cost of compliance

The costs of ensuring compliance with applicable environmental regulation generally consist of costs associated with equipping newly constructed facilities with required technology or modifying existing facilities to comply with applicable regulation. In 2000, our environmental capital expenditures totaled Lit. 998 billion, representing 21.6% of our total capital expenditures. We expect our total environmental capital expenditures will decrease due to the gradual phasing out of the program of environmental compliance measures for our thermal plants described above, which we expect to complete in 2002.

Discontinued nuclear operations

Since November 2000, we have not owned any nuclear power plants. We have not produced electricity from nuclear power plants 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 we ceased operations at our four nuclear plants in Italy, which had an aggregate net installed capacity of 1,500 MW.

In addition to our nuclear power plants, we owned a 33% 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, we sold our stake in NERSA. We, however, retained ownership and responsibility for the decommissioning of our share of the nuclear fuel in the plant.

Pursuant to the Bersani Decree, we have transferred our discontinued nuclear operations to So.g.i.n., a wholly owned subsidiary. The principal activity of So.g.i.n. will be the decommissioning of the nuclear plants and of our share of the nuclear fuel in the NERSA plant in France, including disposal of nuclear fuel and nuclear waste.

Under the Bersani Decree, we were required to transfer to the Treasury Ministry all the shares of So.g.i.n. at no cost. The transfer was completed on November 3, 2000.

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 (1963). 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, we are not liable for any accident that may occur after the transfer to the Treasury Ministry of So.g.i.n.'s shares on November 3, 2000, even if the cause of the accident predates the transfer. Although we are not aware of any accident that predates the transfer, we will remain liable for any accident that occurred before the transfer, even if the damage, or the accident itself, is discovered after November 3, 2000. 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 our transfer of So.g.i.n.'s shares, we represented to the Treasury that we had performed, on a regular basis, every required test on our nuclear plants and that we were 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.

Under the Paris Convention and Italian law, direct liability arising from nuclear liability claims is limited to five million International Monetary Fund Special Drawing Rights, or SDRs, per accident. Under Italian law, to the extent any claim exceeds five million SDRs, someone claiming damages may sue us for only five million SDRs and must sue the Italian government for the excess liability up to 175 million SDRs. If the claim is in excess of 175 million SDRs, that person must sue the signatories to the conventions, but then only for the excess liability up to 300 million SDRs. However, the Italian government can claim reimbursement from us for any sums it may have to pay because of a nuclear accident arising from negligence on our part. On June 28, 2001, five million SDRs equaled approximately Lit. 14 billion.

A provision of the Italian law implementing the conventions states that when damage has been caused concurrently by a nuclear accident and the emission of ionizing radiation, the liability of the person that caused this radiation is not subject to the limitations described above for damages caused by that emission. This provision does not fully conform to the conventions because it does not specify that the ionizing radiation must not independently qualify as a nuclear accident in order to give rise to unlimited liability. We believe, however, that the correct interpretation of Italian law implementing the conventions is that only radiation not classified as a nuclear accident gives rise to liability outside the limitations described above. We believe all emissions of radiation originating from within nuclear plants would qualify as nuclear accidents. As a consequence, because we held nuclear material inside our plants, we believe that we could only be liable outside the limitations described above under remote circumstances.

PROPERTIES, PLANTS AND EQUIPMENT

At December 31, 2000, we had 746 generating plants, consisting of thermal, hydroelectric, geothermal and other renewable resources facilities, most of which were located in Italy. For further information with respect to our plants, see “— Business—The Enel Group—Generation” above. We also own Italy's transmission network of high voltage 380 kV lines, which consisted, at December 31, 2000,

of a total of 37,216 km of lines and 261 primary transformer stations. For a description of such properties and related construction, expansion and improvement plans see “— Business—The Enel Group—Transmission” above. We own the principal electricity distribution network in Italy, which consisted, at December 31, 2000 of a total of 1,062,879 km of lines, mostly medium and low voltage, and 409,722 primary and secondary transformer substations. For a description of such properties and related construction, expansion and improvement plans see “— Business—The Enel Group—Distribution” above. At December 31, 2000, we owned approximately 11,600 km of fiber optic cable leased to WIND for the provision of telecommunication services. For a description of such properties and related construction, expansion and improvement plans see “—Business—Telecommunications” above. At December 31, 2000, we owned real estate, mainly in Italy, with an approximate net book value of Lit. 4,800 billion, consisting mainly of office buildings and other commercial properties and to a lesser extent residential real estate. For a description of such properties and related construction, expansion and improvement plans see “—Business—Other Businesses—Real Estates and Other Services”

Management believes that our significant properties are in good condition and that they are adequate to meet our needs.

Item 5. *Operating and Financial Review and Prospects*

The Electricity Market under the New Regulatory Framework

Our financial results have been and will be affected to a large extent by developments in the regulatory framework for the Italian electricity market. In particular, the Bersani Decree has significantly restructured the electricity market to increase competition and achieve other public policy goals. The significant changes introduced by the Bersani Decree include:

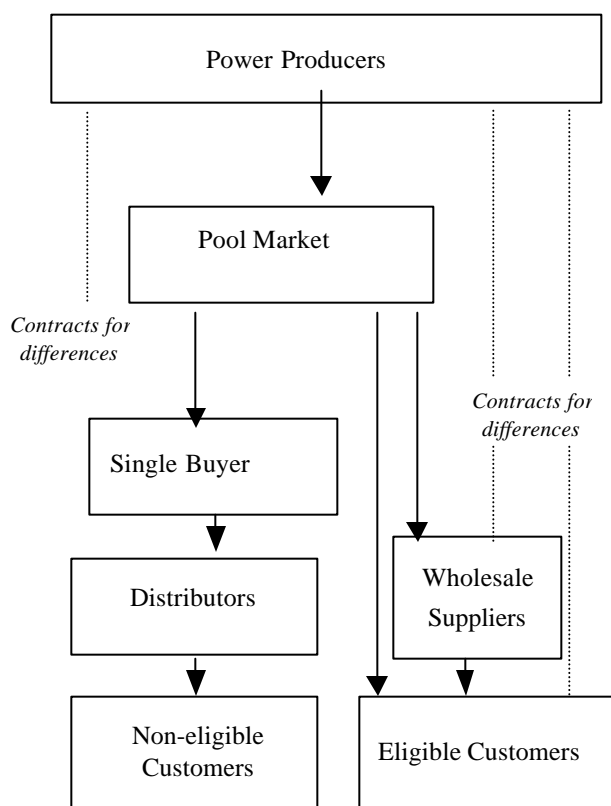
- *Liberalization.* The generation, import and export of electricity, as well as the sale of electricity to major consumers of electricity known as Eligible Customers, have been liberalized as of April 1, 1999.
- *Maximum Market Share Levels for Producers.* In order to ensure competition among electricity producers, the Bersani Decree provides that no single company or group may have more than a 50% market share of the electricity generation and import market after January 1, 2003. We must sell at least 15,000 MW of our generating capacity by that date in order to comply with this requirement. Following the Italian government’s approval, our plan to dispose of plants representing approximately 16,000 MW of our gross installed capacity, in October 2000 we began the sale procedure leading to the disposal of our first Genco. The sale is expected to be completed in the second half of 2001. We are required to dispose of an additional 5,500 MW of generating capacity within 90 days of the sale of the third Genco, pursuant to a decision by the Antitrust Authority, which is under appeal.
- *Distinction between Classes of Customers.* Electricity customers are classified as follows:
 - “Eligible Customers” are principally high volume users such as large manufacturing and industrial companies or consortia that meet specified thresholds of annual electricity consumption. Under the Bersani Decree, Eligible Customers are free to purchase electricity either from power producers or from wholesale suppliers. Sales to Eligible Customers are made on the basis of contracts between the customer and the producer or wholesale supplier and are intended to be competitive.

- “Non-Eligible Customers” are customers who do not meet the criteria to be Eligible Customers, such as residential and small and medium-sized business customers, and as a result are not eligible to participate in the competitive market. Non-Eligible Customers must purchase electricity from the distributor that serves the area in which they are located. Sales to Non-Eligible Customers, and to Eligible Customers that choose not to participate in the free market, are regulated by the Energy Authority, an Italian governmental entity that acts under the supervision of the Industry Ministry.
- *Introduction of a Pool Market with Competitive Bidding.* A pool market for the spot trading of electricity at prices to be determined by competitive bidding among generating companies, importers, wholesalers, distributors, other Eligible Customers and the Single Buyer (see below) is expected to begin operations in 2002.
- *Creation of a “Single Buyer.”* A state-owned entity referred to as the Single Buyer is expected to begin operation contemporaneously with the creation of the pool market. It will be responsible for purchasing all of the electricity to be supplied to the regulated market.
- *New Tariff Regime.* A new tariff regime administered by the Energy Authority took effect on January 1, 2000, significantly lowering the fixed tariff components for generation, transmission and distribution in 2000. Further reductions in fees are expected in 2001 as a result of the implementation of the price caps mechanism to transmission and distribution charges and a 20% reduction in the fixed component of generation price established by the Energy Authority. Once the pool market becomes operational, the tariff component for generation will be periodically adjusted to reflect prices on that market, while the tariff components for transmission and distribution will continue to be subject to a system of price caps.
- *Creation of a System Operator for the National Transmission Network.* We have transferred our electricity dispatching and national transmission network grid management operations to the *Gestore della Rete*, a separate state-owned entity responsible for those functions.
- *Consolidation of Distribution Networks.* Only one license for the distribution of electricity is to be granted in each municipality; distribution companies that now serve the same municipality are required to consolidate their local networks. Accordingly, we have received requests to sell our distribution networks from almost all distribution companies in municipalities with co-existing networks, including the companies owned by the municipalities of Milan, Turin and Verona. As of June 30, 2001, we had completed the sale of our distributions networks located in Trieste and Parma and agreed to sell our distribution networks in Roma and Formello.

You should read “Item 4. Information on the Company—Regulatory Matters—Electricity Regulation” for a more detailed discussion of the new regulatory and tariff regimes changing the Italian electricity sector and to “Item 3. Key Information—Risk Factors—Risks Relating to our Electricity Business” for a discussion of the principal regulatory risks we face.

The restructuring of the Italian electricity market is still in progress. The following chart illustrates the expected structure of the electricity market following the introduction of the Single Buyer and the pool market. We now expect the Single Buyer and pool market to begin operating during 2002.

In the chart, contracts for differences represent swap or similar arrangements relating to electricity supply among power producers and the Single Buyer, retail suppliers or Eligible Customers.



Overview

Changes in tariffs and regulation

Substantially all of our operating revenues come from the sale of electricity. The price of electricity has historically been determined by a system of tariffs. These tariffs are currently set by the Energy Authority, the independent government regulator for the electricity industry, which acts under the supervision of the Industry Ministry. Our operating revenues are directly related to the level of tariffs, except for revenues from sales to Eligible Customers, which currently represent a relatively minor portion of our revenues from the sale of electricity. For the years covered by the financial statements included in this annual report, our revenues from the sale of electricity consisted of:

- electricity sales, which include both revenues derived from sales at the regulated tariffs, with the actual amount of revenues being determined by the contracted capacity required by a consumer and on the amount of electricity the customer actually consumed, and, following the introduction of the free market in January 2000, revenues from direct sales to Eligible Customers based on negotiated contracts; and
- Equalization Fund contributions that are principally related to our costs for fuel and electricity purchased from third parties.

From July 1996 through 1999, tariffs remained largely unchanged. However, a new tariff framework came into effect on January 1, 2000 that resulted in:

- significant reductions in generation, transmission and distribution tariffs in 2000; and
- the application of price cap reductions to transmission and distribution tariffs after 2000.

In addition, a further reduction in generating revenues is expected following the introduction of the pool market, which is currently expected to begin operations in 2002.

As a result of the introduction of the new tariff framework, average tariffs for sales of electricity to Non-Eligible Customers declined by 10.7% in 2000. We expect average tariff levels to decline further in 2001 as a result of the reduction of the fixed component of generation price established by the Energy Authority and the implementation of mandated price caps built into the tariff system in accordance with the Bersani Decree. The actual impact of these tariff reductions on our revenues depends on a number of factors, including the volume of electricity we sell in the regulated market and the mix of types of electricity we sell and customers we serve. We expect that the impact of these lower tariffs on our revenues will be mitigated in part by our receipt of a transitional fee of Lit. 6 per KWh for electricity produced and devoted to Non-Eligible Customers; this fee is due to expire at the end of 2001.

Equalization Fund contributions are paid through the *Cassa Conguaglio per il Settore Elettrico*, the Equalization Fund for the Electricity Industry, or the Equalization Fund. In July 1997, the Energy Authority substantially modified the system of Equalization Fund contributions. Before July 1997, we were reimbursed for virtually all the costs of fuel and for all the costs of electricity imports. Under the Equalization Fund mechanism in effect from July 1997 to December 31, 2000:

- We received payments for fuel costs according to an index based on weighted average industry fuel prices and on a consumption index related to our efficiency of production. As a result, although we faced some variation in profits between accounting periods because of the timing of contribution calculations, our profit levels over time were generally unaffected by fluctuations in fuel prices or exchange rates relating to fuel costs.
- We received payments for the cost of imported electricity according to fuel indices, which were based on the assumed cost of fuel that would have been used to generate the electricity being imported. In practice, however, contribution levels were lower than the actual costs of our imports. As a result, our operating income generated from sales of imported electricity declined.
- We also received payments for electricity purchases that Regulation 6/92 of the *Comitato Interministeriale Prezzi*, an Italian governmental committee, required us to make from domestic producers that use renewable resources. These producers are commonly referred to as “CIP 6 Producers”.

Equalization Fund contributions for fuel costs and imported electricity were abolished starting January 2001. An equivalent “fuel cost component” is now included in the generation cost component of the electricity tariff and is calculated in the same manner as the Equalization Fund contributions for fuel costs. As a result, this change has had no impact on our operations. Also, electricity produced under the CIP 6 regime must now be transferred to the *Gestore della Rete* to meet demand on the free market. As a consequence, we no longer receive Equalization Fund contributions for purchases of such electricity.

Macroeconomic Factors

Historically, the level of demand for electricity in Italy has been closely related to the general level of economic activity in the country. In recent years, economic growth in Italy has been slower than

the European Union average. For example, from 1996 to 2000, Italy's real gross domestic product grew at an average annual rate of 1.9% as compared to an average annual rate of 2.5% for the European Union. On the other hand, growth in electricity demand in Italy has historically exceeded growth in gross domestic product, principally because electricity consumption has grown faster than total energy consumption. Growth in electricity demand was particularly strong in 2000, during which year it increased by 4.2%.

Interest rates in Italy and the rest of Europe declined significantly during the period from 1996 to 1999, which was marked by European Monetary Union and Italy's qualification for participation in the single European currency, before rising again in 2000. As a result, the weighted average interest rate on our long-term debt declined from 6.84% as of December 31, 1997 to 4.62% at December 31, 1999, before rising to 5.48% as of December 31, 2000. Our financing costs increase or decrease in line with changes in interest rates.

Although we are insulated to a significant extent from the economic effect of fluctuations in fuel prices through the operation of the Equalization Fund mechanism described above, time lags between our actual purchase of fuel and the calculation and payment to us of Equalization Fund contributions can affect our revenues and income. Following the introduction of the pool market and anticipated increases in the number of consumers qualifying as Eligible Customers, we will face increased risks relating to fuel price fluctuations, which we intend to attempt to manage through implementation of our hedging policy. Please refer to "Item 11. Quantitative and Qualitative Disclosure About Market Risk—Price risk management and market risk information" for a more detailed description of our hedging policy.

Business segments

Prior to 1998, we managed our operations on a consolidated basis, without separately identifiable business segments. Certain business units within our company provided services on a company-wide basis. These consisted primarily of information technology, research and development, construction and engineering. These business units provided almost no services to third parties, and the related assets of these business units totaled less than one percent of our consolidated assets. We considered the costs of these operations to be costs of providing utility services and we included them as operating costs for purposes of determining tariffs. For these reasons, we had no separately reportable segments for 1997 or prior periods.

During 1998, we reorganized our operations to establish strategic divisions of a single legal entity. Each division was equivalent to a reportable segment and had its own management structure, headed by a division manager who reported directly to our Chief Executive Officer. Beginning in October 1999, we formed separate companies to which we assigned the responsibility (and related assets, liabilities and personnel) of each of our significant businesses, as required by the Bersani Decree.

Based on this approach to managing our business, we have identified the following segments.

Generation. Our generation segment includes the operations of Enel Produzione, ERGA, which specializes in energy from renewable sources, and the three Gencos. Our generation segment earns operating revenues from the sale of electricity to Enel Distribuzione and Enel Trade and through Equalization Fund contributions. Prior to the restructuring that we instituted in October 1999 as part of our implementation of the Bersani Decree, our generation segment had transferred electricity to our transmission segment, which then sold it to our distribution segment.

Transmission. Our transmission segment includes the operations of Terna. Under our new structure, our transmission segment derives its operating revenues from the transportation of electricity on

the portion of the national grid that is owned by Terna, but operated by the *Gestore della Rete*. For the period through September 30, 1999, however, the transmission segment also generated revenues on the sale to our distribution segment of electricity purchased from our generation segment and from third parties, as well as from Equalization Fund contributions relating to purchases of domestic and imported electricity produced by third parties. As noted above, these revenues, related to intra-Company electricity sales, are now attributed directly to our generation segment, while electricity purchases and related Equalization Fund contributions are now managed directly by the corporate segment.

Distribution. Our distribution segment includes the operations of Enel Distribuzione, which is responsible for sales to Non-Eligible Customers and Enel Trade, which handles sales to Eligible Customers.

Other Activities. Our other activities segment includes our information technology services, real estate management and general services, engineering and construction, research and development, and electricity systems-related services, as well as our telecommunications services operations prior to July 1999, at which time WIND began providing these services to us. The other activities also include the gas distribution companies we acquired in 2000, as well as our fuel trading operations. Individually, none of these other activities met the quantitative thresholds for determining reportable segments in the periods covered by the financial statements included in this annual report and we have therefore grouped them together for purposes of segment reporting.

Corporate. Our corporate segment's operations consist primarily of the purchase of fuel used by the thermal generating plants in our generation segment to generate electricity and the purchase of electricity from third parties, both within Italy and abroad. The corporate segment sells fuel to the generation segment at cost and sells electricity purchased from third parties to the distribution segment at prices established by the Energy Authority. The corporate segment up to December 31, 2000, also collected Equalization Fund contributions for electricity imports and energy purchased from domestic producers of electricity from renewable resources under the CIP 6 regime. The corporate segment is also responsible for defining and implementing our strategic plan, as well as providing treasury, human resources, risk management, legal and administrative services to each of our operating companies other than WIND.

We also conduct significant operations in the telecommunications industry through WIND, our joint venture with France Telecom. We own 56.63% of the shares in WIND, with France Telecom indirectly holding the remaining 43.37%. Although we own a majority interest in WIND, our agreements with France Telecom provide France Telecom with certain specified rights with regard to strategic business decisions taken at shareholder and board of director meetings, as well as the right to nominate four of WIND's nine directors. We did not consolidate WIND's results of operations in 1999 and 2000 under Italian GAAP, as we accounted for WIND on the equity method due to the existence of significant control restrictions for the greater part of the period. For U.S. GAAP purposes, we have consolidated WIND's results since August 2000, since a new shareholders' agreement signed in July 2000 eliminated some of the management and control restrictions previously imposed on us.

Several factors significantly affect the inter-period comparability of our segment information, including:

- As described in more detail in “—The Electricity Market under the New Regulatory Framework” above, the Italian electricity sector is currently undergoing major changes which significantly affect each of our operating segments. These changes, include, but are not limited to, changing tariff rates, the introduction of sales to Eligible Customers and the mandated reorganizations of some of our activities. We have summarized the

principal changes that effect the comparability of our information about our individual segments in the segment descriptions above.

- Currently, most of the revenues and costs recorded by our generation, transmission, distribution and corporate segments arise from inter-segment transactions, reflecting our integrated structure and leading position in each of the core segments of the Italian electricity market. Historically, transfer prices for these transactions were based on internal management allocations which are not representative of the market prices which began to be charged on January 1, 2000, pursuant to applicable regulations.

Once the Single Buyer and pool market begin to operate, however, we expect that the majority of operating revenues and costs for each segment will involve third parties. This change will further reduce the comparability of our segment information for 1999 and 2000 with that in future periods.

Outlook

We expect that the ongoing liberalization of the Italian electricity sector will materially affect our financial condition and results of operations over the next several years. Factors likely to have the most significant impact include:

- The change in tariff structure from January 1, 2000;
- Our disposal of the Gencos, which must be completed by January 1, 2003 and if ultimately required, our disposal of 5,500 MW of additional generation capacity within 90 days following our disposal of the last Genco;
- Our sale of distribution networks in certain municipalities to local municipal utilities, as mandated by the Bersani Decree;
- The introduction of the pool market, currently expected to occur in 2002, which will cause our generation activities to be remunerated based on competitive electricity prices rather than tariffs;
- The impact of our acquisition of Infostrada, the integration of WIND's and Infostrada's operations and the expansion of our telecommunications business.

You should read "Item 4. Information on the Company—Business—The Enel Group," "Item 4. Information on the Company—Regulatory Matters" and "Item 3. Key Information—Risk Factors" for a more detailed discussion of these changes to our business.

Notwithstanding the expected growth of electricity demand in 2001, we believe that this year we will produce less electricity than in 2000, due to our sale of Elettrogen and the increase in production by independent power producers and sales by importers. We also expect that in 2001 our sales of electricity to Non-Eligible Customers will decrease due to the ongoing liberalization of the market. However, we also expect that such decrease will be offset to some extent by increased sales to Eligible Customers through Enel Trade.

We will seek to reduce our costs significantly over the next several years in order to offset the impact of tariff reductions as well as to improve our operating margins. We expect that declining personnel costs resulting from headcount reductions, primarily due to attrition and early retirements, will be a principal source of these cost reductions. Our goal is to reduce our total headcount by at least 18,000

between December 31, 2000 and the end of 2005, equivalent to approximately 25% of our workforce (excluding WIND) of 72,647 persons at December 31, 2000. This estimate includes reductions resulting from the disposal of the Gencos, municipal distribution networks and other assets mandated by the Bersani Decree, or that we otherwise intend to make, but does not account for any increase in our personnel that could result from the possible consolidation of our telecommunications assets or acquisitions. In comparison, we reduced our total number of employees by 25.8% between the end of 1995 and the end of 2000.

In addition, because of the introduction of the *Gestore della Rete* and the Single Buyer as intermediaries in the transmission of electricity under the Bersani Decree, in the future we, as a generator, will sell electricity to the Single Buyer and then, as a distributor, repurchase electricity for distribution on our distribution network. As a result, on a consolidated basis, our operating revenues and costs will both increase because we will record revenues from sales to the Single Buyer and from sales to end users of electricity and record costs relating to both the generation of electricity and the purchase of electricity from the Single Buyer. We do not expect that this largely offsetting increase in costs and revenues will have a significant effect on our operating income.

As part of our required restructuring under the Bersani Decree:

- We have transferred to the *Gestore della Rete*: 614 employees, assets with an aggregate book value of Lit. 117 billion (net of technical depreciation) and liabilities in an aggregate amount of Lit. 79 billion, all relating to our transmission network. We transferred all of the shares of the *Gestore della Rete* to the Treasury Ministry without charge on April 1, 2000. The results of the *Gestore della Rete* are therefore not included in our consolidated results for 1999 or 2000.
- We have transferred all of our discontinued nuclear operations to So.g.i.n. S.p.A. and have transferred all of the shares of So.g.i.n. to the Treasury Ministry free of charge. As a result, So.g.i.n. is not included in our consolidated results for 1999 or 2000;
- We have chosen to structure the sale of Elettrogen as a multi-step auction, with the final buyer being selected on the basis of price, as well as certain other factors, including a business plan.

In connection with the formation of the Gencos in 1999, we transferred to them an aggregate of approximately 5,100 employees, Lit. 8,200 billion of assets, including 15,057 MW of net installed capacity, and Lit. 6,400 billion of liabilities. In 2000, approximately 27% of our total energy produced, approximately 13% of our total revenues and approximately 11% of our earnings before interest, taxes, depreciation and amortization were related to the three Gencos. You should read “Item 4. Information on the Company—Business—The Enel Group—Disposal of the Gencos” for more detail on these transfers, including selected operating data and unaudited financial information on the Gencos at December 31, 2000 and for the year then ended. The actual impact of our transfer of the generating companies may differ significantly from these figures, in part because of the significant uncertainty surrounding the effective date of the disposals, which must occur sometime prior to January 1, 2003, varying production volumes of the Gencos in the future, the changing market structure and other regulatory developments. The cost and revenue structure for the Gencos as separate companies is materially different from that which they faced as individual generating facilities within Enel. Intercompany purchases and sales of energy between the Gencos and the other members of the Enel Group have, since January 1, 2000, been based on market prices. As separate legal entities, each of the Gencos is required to maintain individual management, financial reporting and legal personnel and related resources that simply were not needed when they were completely integrated with the Enel Group. Most purchasing and procurement decisions

for inputs other than fuel, which had previously been made on a Group-wide or regional basis, are now made by each of the Gencos individually. In addition, the individual Gencos now make their own production decisions on the basis of instructions from the *Gestore della Rete*, with a concomitant effect on their revenues. Moreover, we expect that the ongoing liberalization of the Italian electricity market will only accentuate these differences in future years. However, our operating profits will decline after the sales unless we are able to offset the decrease in volumes of our generation business in Italy through improved efficiencies, diversification of our operations or international expansion. We will continue to fully include the results of each of the three Gencos in our consolidated results until the time of their disposal. In addition to our required disposal of the Gencos, the Antitrust Authority conditioned its approval of our acquisition of Infostrada S.p.A. on our disposal of an additional 5,500 MW of generating capacity within 90 days of the sale of the last Genco. We have appealed the decision of the Antitrust Authority before the Administrative Court of Lazio. Were we to have to dispose of additional generating capacity as required by the Antitrust Authority, our gross installed capacity and our share of the overall Italian electricity production would decrease further.

Any disposal of assets will increase our cash flow and return on equity, thus offsetting to some extent the negative impact on cash flow and operating results deriving from the liberalization of the market.

Acquisition of Infostrada

On March 29, 2001, Enel Investment Holding BV, a Dutch company fully owned by us, acquired from Mannesman Investment BV (an indirect, wholly owned subsidiary of Vodafone Group plc) 100% of the capital stock of Infostrada, one of Italy's leading providers of fixed line telecommunications services and the owner and operator of one of Italy's leading Internet portals. The purchase price of the shares, amounting to €7,250 million (Lit. 14,038 billion), was paid in full on the same date. As provided for in the share purchase agreement, Mannesman Investment BV was also repaid by us €132 million (Lit. 256 billion) representing a receivable against Infostrada that Mannesman Investment BV had previously renounced in favor of Infostrada. Moreover, on the same date, Enel Investment Holding BV paid Vodafone €821.2 million (Lit. 1,590 billion) due to Vodafone by Infostrada and became a creditor of Infostrada for the same amount. In addition, in connection with the acquisition, we incurred and will incur during the six-month period following the acquisition, certain ancillary costs amounting to a maximum of €375 million (Lit. 727 billion).

The acquisition of Infostrada was authorized by the European Commission on January 19, 2001, while the authorization by the Antitrust Authority was issued on February 28, 2001. The authorization of the Antitrust Authority is subject to our disposal of 5,500 MW of generation capacity (60% of which must consist of *mid-merit* and *peak* plants). The decision of the Antitrust Authority requires us to transfer such capacity to a newly-formed generation company and sell this company within 90 days of the sale of the last generation company sold pursuant to the Bersani Decree (see "Item 4. Information on the Company—Business—Telecommunications—Infostrada—The Acquisition").

We have challenged the decision of the Antitrust Authority before the Administrative Court of Lazio. As agreed with Vodafone, the outcome of such action will have no effect on the sale, which is final and unconditional.

We originally financed our acquisition of Infostrada with funds that we obtained under a €10 billion revolving credit facility that we entered into with a pool of banks in November 2000 and transferred to Enel Investment Holding BV through an intercompany loan. In June 2001, Enel Investment Holding BV refinanced a portion of the purchase amount through the issuance of a €2 billion in medium term notes with a maturity of three years (see "—Liquidity and Capital Resource—Capital Resources").

In accordance with our recently amended shareholder agreement with France Telecom, we currently plan to integrate WIND and Infostrada into a single entity no later than 12 months after closing. Our arrangements with France Telecom contemplate the possibility of a public offering of the shares in the combined entity. The timing of this offering is subject to market conditions. We would expect to use a portion of the proceeds from any such offering to partially reduce the debt the Enel Group has incurred to acquire Infostrada. However, no assurance can be given that such offering will in fact occur or that we will be able to use any proceeds to reduce our acquisition-related debt.

Our acquisition of Infostrada will have a significant effect on our results of operations and financial condition, primarily as a result of the amortization of goodwill arising from the transaction and the debt incurred in order to finance the acquisition. The purchase price of €7,250 million (Lit. 14,038 billion), and the €132 million (Lit. 256 billion) paid to Mannesman Investment BV at the time of the acquisition, are approximately €7,256 million (Lit. 14,050 billion) greater than the consolidated net book value of Infostrada as of March 31, 2001, thus giving rise to an equivalent amount of goodwill as of such date. In addition, in connection with the acquisition, we incurred and will incur during the six-month period following the acquisition, certain ancillary costs amounting to a maximum of €375 million (Lit. 727 billion) which will also give rise to an equivalent amount of goodwill. We will have to amortize this goodwill over a period of 15 years. Until the closing of the transaction in March 2001, we did not exercise any control over Infostrada. Therefore we are unable to estimate what, if any, changes to the book value of Infostrada's assets we may be required to make in the future in order to reflect the fair value of such assets. Any change in the book value of these assets will result in a change in the amount of goodwill we are required to amortize.

Results of Operations

The following table shows certain financial data for the years ended December 31, 1998, 1999 and 2000, expressed in each case as a percentage of our operating revenues:

	Year ended December 31,		
	1998	1999	2000
Operating revenues	100.0%	100.0%	100.0%
Operating expense:.....			
Personnel.....	(20.2)	(18.2)	(14.1)
Fuel	(16.7)	(15.5)	(22.5)
Purchased power.....	(15.8)	(16.8)	(17.4)
Depreciation and amortization.....	(15.2)	(15.3)	(13.8)
Other operating expenses.....	(8.0)	(8.5)	(13.3)
Total.....	(75.9)	(74.3)	(81.1)
Operating income	24.1	25.7	18.9
Financial expense.....	(3.7)	(2.8)	(2.6)
Equity losses	—	(1.1)	(1.8)
Extraordinary income (expense).....	(2.3)	(2.6)	0.8
Income before taxes	18.1	19.2	15.3
Income taxes	(7.3)	(8.0)	(6.6)
Net income	10.8%	11.2%	8.7%

2000 compared with 1999

Operating revenues

The following table shows the different sources of our operating revenues for the years ended December 31, 1999 and 2000.

	Year ended December 31,	
	<u>1999</u>	<u>2000</u>
	(in billions)	
Electricity sales		
Tariff revenues from sales on the regulated market.....	Lit. 26,317	Lit. 22,244
Sales to Eligible Customers	102	2,513
Equalization Fund contributions for:		
Fuel costs	6,324	10,392
Electricity imports, electricity purchases and other.....	<u>5,448</u>	<u>8,540</u>
Total.....	<u>Lit. 38,191</u>	<u>Lit. 43,689</u>
Other revenues:		
Reimbursement of costs for customer connections,	Lit. 1,124	Lit. 1,223
inspections and repositioning services		
Other ⁽¹⁾	<u>1,269</u>	<u>3,706</u>
Total other revenues	<u>2,393</u>	<u>4,929</u>
Total operating revenues	<u>Lit. 40,584</u>	<u>Lit. 48,618</u>

(1) "Other" includes fees for the transmission of electricity, reimbursements for repairs to electrical equipment damaged by third parties and revenues from our public lighting, engineering and construction, research and development, gas distribution, fuel trading and electrical consulting operations.

Our consolidated operating revenues for 2000 increased by Lit. 8,034 billion, or 19.8%, compared to 1999, notwithstanding a decline of Lire 1,662 billion, or 6.3%, in electricity sales that was primarily attributable to lower tariffs that came into effect on January 1, 2000 and a decline of 3.3% in the volume of electricity sold. Tariff revenues from sales in the regulated market declined by Lit. 4,073 billion, or 15.5%. The effect of this decline on electricity sales was offset in part by an increase of Lit. 2,411 billion in revenues from sales to Eligible Customers in 2000, following the expansion of the free market. The increase in our consolidated operating revenues was principally attributable to an increase of Lit. 7,160 billion, or 60.8%, in the total amount of Equalization Fund contributions, which reflected a significant increase in average prices for fuel to which a portion of such contributions is indexed. The increase also reflected an increase in other revenues of Lit. 2,536 billion, or 106.0%, which was primarily due to Lit. 1,732 billion in revenues earned for transmitting electricity on the national grid and our distribution network in accordance with the new tariff structure, as well as higher sales to third parties by certain of our new companies, including our fuel trading, engineering and construction and research and development operations and the gas businesses we acquired during the course of 2000.

The following table shows our operating revenues for each of our business segments for the periods presented. As noted above and explained in more detail below, several factors significantly affect the inter-period comparability of our segment information.

	Year ended December 31,	
	1999	2000
	(in billions)	
Generation.....	Lit. 18,584	Lit. 22,325
Transmission	16,157	1,492
Distribution.....	28,166	26,920
Corporate.....	--	18,975
Other activities	3,803	6,368
Eliminations	<u>(26,126)</u>	<u>(27,462)</u>
Total	<u>Lit. 40,584</u>	<u>Lit. 48,618</u>

Generation. Operating revenues of our generation segment for 2000 increased by Lit. 3,741 billion, or 20.1%, as compared to 1999. The increase principally attributable to significantly higher Equalization Fund contributions for thermal generation, which increased by Lit. 4,068 billion or 64.3%, primarily as a result of higher average market prices for the fuels on which a portion of these contributions are based, as well as the introduction in 2000 of a transitional fee of Lit. 6 per kWh for production devoted to Non-Eligible Customers, which fee generated a total of Lit. 875 billion. The positive impact of these factors was only partially offset by a decrease in revenues from intra-Group sales of electricity of Lit. 1,381 billion during the year, or 12.1%, notwithstanding a 2.1% increase in the volume of electricity produced. The decrease in revenues from intra-Group electricity sales reflected the impact of the new tariff structure, under which the prices set by the Energy Authority for payment to producers are lower than the intersegment prices charged in 1999.

Transmission. As a result of the restructuring of our operations described in more detail above, operating revenues for our transmission segment in 2000, which amounted to only Lit. 1,492 billion, are not comparable with those for 1999, which totaled Lit. 16,157 billion.

Distribution. Since October 1, 1999, our distribution segment has generated operating revenues from electricity sales to final customers through Enel Distribuzione and Enel Trade. Operating revenues for the distribution segment decreased by Lit. 1,246 billion, or 4.4%, in 2000. This decrease was principally attributable to decreases in the amount of electricity sold to final customers, which declined by 3.3%, and in our average revenue per kWh sold on the regulated market, which fell from 114.7 Lit./kWh to 110.8 Lit./kWh, or by 3.4%, again reflecting the impact of the lower tariffs that came into effect in 2000.

Corporate. In 2000, the corporate segment recorded operating revenues of Lit. 18,975 billion, of which Lit. 11,329 billion was attributable to intra-Group sales of fuel and electricity with the bulk of the remainder being attributable to Equalization Fund contributions for purchases of electricity from third parties (approximately Lit. 6,759 billion).

Other activities. In 1999, our operating revenues from other activities primarily consisted of intersegment revenues relating to our engineering and construction services and real estate activities, as well as, prior to their transfer to WIND in July 1999, intra-Group telecommunications services. In 2000, these revenues also reflected the contribution of our gas, fuel trading, research and development and engineering and construction activities, which became operational during the course of the year. The increase of Lit. 2,565 billion, or 67.4%, in the operating revenues of our "other activities" was primarily attributable to intra-Group sales of fuels for Lit. 2,662 billion and to the above-mentioned new services, which generated aggregate revenues from third parties of approximately Lit. 583 billion. This increase was partially offset by lower revenues from intra-Group engineering and research activities (Lit. 277 billion and Lit. 178 billion, respectively) and by the transfer of telecommunications operations to WIND (Lit. 245 billion of intra-Group revenues in 1999).

Eliminations. Eliminations in operating revenues primarily relate to intersegment sales (primarily of fuel and electricity) and services (primarily engineering and construction).

Operating expenses

The following table shows a breakdown of our operating expenses for each of the periods presented:

	Year ended December 31,	
	1999	2000
	(in billions)	
Operating expenses:		
Personnel.....	Lit. 7,402	Lit. 6,837
Fuel.....	6,308	10,929
Purchased power.....	6,831	8,467
Other operating expenses:		
Services and rentals	2,518	4,749
Materials and supplies	1,526	1,643
Provisions	752	1,034
Other	550	759
Capitalized expenses	<u>(1,930)</u>	<u>(1,701)</u>
Total.....	<u>Lit. 23,957</u>	<u>Lit 32,717</u>

Our consolidated operating expenses for 2000 increased by Lit. 8,760 billion, or 36.6%, compared to 1999. Expressed as a percentage of operating revenues, operating expenses increased from 59.0% to 67.3%. The increase was primarily due to a significant rise in fuel costs and an increase of 3.2% in the volume of electricity we produced from thermal sources, as well as to the impact of higher prices for electricity purchased from third parties. Additionally, costs for services and rentals increased by Lit. 2,231 billion, or 8.6%, reflecting fees now charged for the transmission of electricity in accordance with the new tariff system, while purchased power costs increased by Lit. 1,636 billion, or 23.9%. The negative effects of these factors were offset in part by a reduction in personnel costs of Lit. 565 billion, or 7.6%, that mainly reflected a 5.4% decrease in our average headcount. Each of these items is discussed in more detail below.

Personnel costs decreased by Lit. 565 billion, or 7.6%, reflecting a decrease in our average number of employees, which declined by 5.4%, from 80,253 in 1999 to 75,887 in 2000. The decline in headcount was primarily attributable to early retirements spurred by incentives, while the decrease in personnel costs also reflected a reduction in the amount of our contributions to the national pension system for family benefits, in accordance with applicable legislation.

Fuel costs increased by Lit. 4,621 billion, or 73.3%, reflecting higher average market prices for fuel and an increase in the volume of electricity produced by our thermal generating plants.

Purchased power costs increased by Lit. 1,636 billion, or 23.9%, notwithstanding a 14.9% decrease in the volume of energy purchased during the year. The increase in our overall average purchase cost per unit reflected the fact that a higher proportion of our third-party power purchases were from high-cost domestic sources, primarily other national producers that qualified for the CIP 6 regime following their introduction of new power plants using renewable resources. This change in the mix of our purchases of power from third parties reflected in part new limitations imposed by the Energy Authority on the volume of electricity that any one entity may import.

Service and rental costs increased by Lit. 2,231 billion, or 88.6%, due mainly to Lit. 1,731 billion in electricity transmission fees payable under the new tariff framework and Lit. 303 billion in fees paid for intra-Group telecommunications services now provided by WIND. Costs for telecommunications, which primarily relate to services we had previously provided internally, arose for the first time in the second half of 1999 as a result of our restructuring and related transfers of assets to WIND. Their overall impact on our operations is therefore partially offset by decreases in other related operating costs. Since January 2000, service and rental costs also include fees due for the transmission of electricity generated from renewable resources, which amounted to Lit. 256 billion in 2001.

Other costs increased by Lit. 209 billion, or 38.0%, due primarily to higher local taxes, extraordinary costs and charges connected with the swap agreement and transportation arrangements relating to the Nigerian natural gas purchased from NLNG (see “Item 4. Information on the Company—Business—The Enel Group—Fuel—Natural Gas”).

Capitalized expenses decreased by Lit. 229 billion, or 11.9%, due mainly to a decrease during the period in capital expenditures, as well as certain cost savings.

The following table shows a breakdown of our operating expenses by business segment for each of the periods presented. As noted above and explained in more detail above, several factors significantly affect the inter-period comparability of our segment information.

	Year ended December 31,	
	1999	2000
	(in billions)	
Generation.....	Lit. 9,758	Lit. 15,038
Transmission	15,620	589
Distribution	20,793	20,919
Corporate.....	—	18,018
Other activities	3,865	5,495
Eliminations	<u>(26,079)</u>	<u>(27,342)</u>
Total.....	<u>Lit. 23,957</u>	<u>Lit. 32,717</u>

Generation. Operating expenses for the generation segment, which primarily consist of fuel costs, personnel and maintenance for our production plants, increased by Lit. 5,280 billion, or 54.1%, in 2000 as compared to 1999. The increase was principally attributable to a significant rise in fuel costs, which increased by Lit. 4,621 billion, or 73.3%. Other operating expenses for the segment also increased, reflecting fees we have paid for the transmission of electricity generated by our hydroelectric and geothermal plants since January 1, 2000, which amounted to Lit. 256 billion, and Lit. 227 billion accrued in 2000 for revenues earned in excess of the estimated amount of revenues allowed by the Energy Authority at certain Group companies under the stranded costs reimbursement mechanism. Stranded costs were estimated for each individual company of the Group according to elements contained in Ministerial Decree dated January 26, 2000, and the “Note” issued by the Energy Authority on August 3, 2000, as the Energy Authority has not yet issued final reference parameters. In recording stranded costs, our individual companies adopted prudent criteria in view of their undetermined amount, recording stranded costs in the accounts only when the estimate was negative. The amount accrued is equal to the difference between estimated recognized revenues for each plant involved and an estimate of revenues calculated according to both actual energy generated for period and the average wholesale price of electricity. These calculations included moreover the estimate of the amount reimbursed against the extra costs involved with the import of liquefied natural gas from Nigeria. You should read “Item 4. Information on the Company—Regulatory Matters—Electricity Regulation—The new tariff structure—Stranded costs.”

Additional intra-Group administrative and other services provided to the five new generation companies created as part of our restructuring account for the remainder of the cost increase.

Transmission. As noted above, the revenue and cost base of our transmission segment changed significantly as a result of our restructuring. The segment's operating expenses now consist primarily of costs associated with running our transmission network, whereas prior to September 30, 1999, they also included intersegment prices paid to the generation segment for electricity and the cost of electricity we imported or purchased from CIP 6 producers. As a result of this restructuring, operating expenses for the transmission segment in 2000, which amounted to only Lit. 589 billion, are not comparable with those for 1999, which totaled Lit. 15,620 billion.

Distribution. Operating expenses for our distribution segment principally consist of costs associated with running our distribution network. For the period through September 30, 1999, these expenses also included intersegment prices paid to the transmission segment for electricity purchased from and transported by that segment. Following the restructuring described above, the distribution segment now buys electricity directly from the generation segment and the corporate segment at prices that are fixed by the Energy Authority, with a portion of the purchase price being payable to the transmission segment for its services. Operating expenses of our distribution segment increased by Lit. 126 billion, or 0.6%, in 2000 as compared to 1999, primarily as a result of increased charges for the transmission of electricity, which rose by Lit. 1,336 billion, and increased costs for intra-Group services, primarily telecommunications services provided by WIND, which increased by approximately Lit. 400 billion. The negative impact of these factors on operating expenses was largely offset by lower electricity acquisition costs, which decreased by Lit. 1,436 billion, reflecting both lower prices fixed by the Energy Authority and lower volumes. Personnel costs also decreased by Lit. 213 billion, or 5.8%.

Corporate. Operating expenses of the corporate segment totaled Lit. 18,018 billion in 2000, of which Lit. 8,694 billion represented costs for fuel purchased by the corporate segment and subsequently transferred to the generation segment at cost and Lit. 8,342 billion was attributable to electricity purchased from third parties within Italy and abroad. The remainder of the total comprised service, rent and other costs of Lit. 564 billion, personnel costs of Lit. 225 billion and changes in risk provisions and accruals of Lit. 193 billion.

Other activities. Operating expenses for our other activities segment increased by Lit. 1,630 billion, or 42.2% in 2000 as compared to 1999, principally as a result of the first-time inclusion of costs related to new activities, in particular an aggregate of Lit. 2,838 billion of costs relating to purchases of fuel for the new fuel trading and procurement activities of Enel F.T.L. and purchases of natural gas for our recently acquired gas distribution companies. The increase was partially offset by decreased costs relating to a lower volume of intra-Group engineering and contracting services, the transfer of telecommunications services from this segment to WIND, the disposal of our shares of S.o.g.i.n. and a decline in other costs arising out of our reorganization, which in the aggregate totaled Lit. 1,202 billion.

Eliminations. Eliminations for operating expenses principally consist of the elimination of intersegment electricity and fuel purchases and costs for the provision of intersegment services.

Depreciation and amortization

The following table shows depreciation and amortization for each of our business segments for each of the periods presented:

	Year ended December 31,	
	1999	2000
	(in billions)	
Generation.....	Lit. 2,493	Lit. 2,729
Transmission	427	444
Distribution.....	2,880	3,120
Corporate.....	—	13
Other activities	<u>401</u>	<u>391</u>
Total.....	<u>Lit. 6,201</u>	<u>Lit. 6,697</u>

Depreciation and amortization for 2000 increased by Lit. 496 billion, or 8.0%, as compared to 1999. This increase was principally attributable to an increase in amortization of Lit. 197 billion related to the extraordinary contributions we are required to make to the national pension system in each of 2000, 2001 and 2002 following the elimination of the pension fund for electricity employees. Under Italian GAAP, these extraordinary contributions are amortized over a period of 20 years. You should read “Employees” for a more detailed discussion of these contributions. Amortization of other intangibles, mainly related to software applications, increased by Lit. 43 billion, while higher depreciation rates applied to technology assets resulted in an increase in depreciation charges of Lit. 40 billion. As noted above, the amortization of the goodwill associated with our purchase of Infostrada will have a significant effect on our results of operations and financial condition in 2001. We will have to amortize this goodwill over a period of 15 years. Please refer to “—Outlook—Acquisition of Infostrada” for a more detailed discussion of this issue.

Operating income

The following table shows operating income for each of our business segments for the periods presented:

	Year ended December 31,	
	1999	2000
	(in billions)	
Generation.....	Lit. 6,333	Lit. 4,558
Transmission	110	459
Distribution.....	4,493	2,881
Corporate.....	—	944
Other activities	(463)	482
Eliminations	<u>(47)</u>	<u>(120)</u>
Total.....	<u>Lit. 10,426</u>	<u>Lit. 9,204</u>

Operating income decreased by Lit. 1,222 billion, or 11.7%, in 2000 as compared to 1999, principally as a result of the decline in revenues from electricity sales and higher depreciation and amortization charges, which were offset in part by cost savings related to our personnel reductions.

Generation. Operating income of our generation segment fell by Lit. 1,775 billion, or 28.0%, in 2000 as compared to 1999, principally as a result of the decline of Lit. 1,381 billion in revenues earned from intra-Group electricity sales noted above, the fees paid in 2000 for the transmission of hydroelectric and geothermal electricity on the national transmission network, which amounted to Lit. 256 billion and the stranded costs accrual of Lit. 227 billion, the effects of which were partially offset by cost savings derived from improved efficiency at our plants.

Transmission. As noted above, the revenue and cost base of our transmission segment changed significantly following our restructuring. As a result, operating income for the transmission segment in 2000, which amounted to Lit. 459 billion, is not comparable with that for 1999, which totaled Lit. 110 billion.

Distribution. Operating income of our distribution segment decreased by Lit. 1,612 billion, or 35.9% in 2000 as compared to 1999 due to a number of factors mainly related to the new tariff system, the opening of the market and the new organization of the Group. Charges for electricity transmission net of transmission revenues increased by Lit. 863 billion, costs for intra-Group services rose by approximately Lit. 400 billion, the gross margin on electricity sold by the segment fell by approximately Lit. 300 billion because of the new tariff system and amortization and depreciation charges increased by Lit. 240 billion (mainly related to the amortization of the extraordinary contribution for the elimination of the Electricity Sector Employee Pension Fund). These items were partially offset by savings in personnel costs of Lit. 213 billion.

Corporate. Operating income of our corporate segment in 2000 was Lit. 944 billion, all of which was attributable to intra-Group transactions.

Other activities. Our other activities segment recorded operating income of Lit. 482 billion in 2000, as compared to an operating loss of Lit. 463 billion in 1999, primarily as a result of changes in our internal organization and allocations of our intra-Group costs, as well as the transfer of our discontinued nuclear operations, which had recorded an operating loss of Lit. 90 billion in 1999, to So.g.i.n. in November 1999.

Financial expense

Net financial expense increased by Lit. 125 billion, or 11.1%, in 2000 as compared to 1999, primarily as a result of an increase in our average level of debt outstanding and higher market interest rates, as the average 6-month Euribor rate increased from 3.05% in 1999 to 4.55% in 2000.

Equity losses

The Lit. 887 billion charge recorded in 2000 consists of our share of equity losses and goodwill amortization in WIND (Lit. 813 billion) and a writedown of the value of our interest in Echelon Corporation (Lit. 68 billion). The increase of Lit. 448 billion in the total charge as compared to 1999 primarily reflects, in addition to the Echelon writedown, an increase of Lit. 339 million in our share of the losses at WIND, as well as Lit. 37 billion of amortization expense relating to the amortization of goodwill arising from our acquisition in July 2000 of an additional 5.63% of WIND's share capital following the resolution of our dispute with Deutsche Telekom and Deutsche Telekom's exit from the venture. Please refer to "Item 8. Financial Information—Other Financial Information—Legal Proceedings" for more detail on this matter.

Extraordinary income (expense)

We recorded net extraordinary income of Lit. 368 billion in 2000, as compared to net extraordinary expense of Lit. 1,057 billion in 1999.

Extraordinary income for 2000 principally consisted of:

- The collection of Lit. 309 billion resulting from the reversal of a doubtful account reserve following the recognition by the Italian Council of State of certain nuclear related charges, which the Energy Authority had questioned in 1998;
- The receipt of Lit. 117 billion relating to the settlement of certain claims arising from the Vajont disaster litigation. See “Item 8. Financial Information —Other Financial Information— Legal Proceedings”; and
- Capital gains on the disposal of assets, related primarily to the sale of two electricity distribution businesses to local utility companies, and totaling Lit. 136 billion.

This extraordinary income was offset by extraordinary expenses of Lit. 197 billion in incentives paid to new participants in the early retirement programs described below.

Extraordinary expenses for 1999 principally consisted of:

- A provision of Lit. 792 billion relating to two different early retirement programs made available to our employees and managers. The manager plan, which opened in May 1998 and remains open, is directed at individual managers. The employee program opened in July 1999 and will remain open until December 2001. Both programs allow for a one-time payment of a certain number of month’s salary based upon the plans’ formula.
- A provision of Lit. 180 billion relating to below-market swap and swap option contracts to cover interest rate risk that were restructured during 1999.
- A write-down of Lit. 172 billion to reflect the difference in the carrying value and estimated fair market value (as determined by an independent appraisal) of certain real estate assets that we transferred to Dalmazia Trieste, one of our consolidated subsidiaries, in view of their planned disposal.
- A provision of Lit. 100 billion, principally relating to a power plant construction project halted by management for which provisions had been recorded in prior years. The provision reflects the decrease in the estimated fair value of the related assets, as the probability of a sale of this project or its inclusion in a construction joint venture decreased in 1999.
- A provision of Lit. 80 billion principally relating to the write-off of our equity investments in the Gestore della Rete and So.g.i.n., which were transferred to the Treasury Ministry at no cost; and
- A provision of Lit. 59 billion for the future restructuring of engineering and research activities.

These extraordinary expenses were offset in part by extraordinary income which principally consisted of income of Lit. 214 billion arising out of a favorable judgment received in 1999 with regard to refunds of taxes and fees paid by the Group in prior years and income of Lit. 57 billion relating to a court judgment in our favor, for which we recorded a receivable.

You should read note 24 to our consolidated financial statements for a discussion of the different criteria used under Italian GAAP and U.S. GAAP for determining what constitutes an extraordinary item.

Income taxes

The following table shows a breakdown of our income taxes for the periods indicated.

	Year ended December 31,	
	1999	2000
	(in billions)	
Income taxes:		
Current and deferred taxes	Lit. 3,820	Lit. 3,479
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates	----	(286)
Deferred tax assets relating to prior years	(562)	—
Total.....	<u>Lit. 3,258</u>	<u>Lit. 3,193</u>

The total tax charge for 2000 was Lit. 3,193 billion, which was Lit. 65 billion or 2.0% lower than the charge for 1999. The principal reasons for this decrease were:

- the benefit for 2000 of Lit. 286 billion deriving from the adjustment of net deferred taxes to bring them into line with lower corporate tax rates applicable from 2001; the new tax rates have been applied in calculating deferred taxes for the year;
- a decrease of Lit. 370 billion, or 4.7%, in our income before income taxes; and
- the fact that we did not recognize deferred tax assets from prior years in 2000, whereas we had recognized Lit. 562 billion of such assets in 1999. We had not previously recorded the full benefit of deferred tax assets, which primarily related to reserves for nuclear charges that had been recorded under Italian GAAP, due to the uncertainty of realization of the assets. During 1999, the issue of which assets and liabilities of our discontinued nuclear operations would be transferred to our new subsidiary, So.g.i.n., was clarified and, as a result, Lit. 562 billion of deferred tax assets were recognized in 1999, primarily for these items. The reorganization and eventual transfer of our discontinued nuclear operations is discussed in more detail in “Item 4. Information on the Company—Regulatory Matters—Environmental matters—Discontinued nuclear operations;”

Our effective tax rate increased to 43.0% in 2000, as compared to 41.8% in 1999. The increase reflected the recognition of a significant amount of deferred tax assets in 1999, as noted above, which did not recur in 2000.

Net income

Net income decreased 6.7%, from Lit. 4,541 billion in 1999 to Lit. 4,236 billion in 2000. This decrease was principally due to the decline in operating income and the increases in equity losses and financing costs described above, the negative effects of which were partially offset by the increase in extraordinary income and lower income taxes.

1999 compared with 1998

Operating revenues

The following table shows the different sources of our operating revenues for the years ended December 31, 1998 and 1999.

	Year ended December 31, <u>1998</u> <u>1999</u> (in billions)	
Sales of electricity	Lit. 25,681	Lit. 26,419
Equalization Fund contributions for:		
Thermal production.....	6,951	6,324
Purchase of electricity and incentives for renewable sources	5,112	5,448
Other services	540	583
Total.....	<u>Lit. 38,284</u>	<u>Lit. 38,774</u>
Other revenues:		
Reimbursement of costs for customer connections, inspections and repositioning services	Lit. 1,090	Lit. 1,124
Other (1)	414	686
Total other revenues	<u>1,504</u>	<u>1,810</u>
Total operating revenues	<u>Lit. 39,788</u>	<u>Lit. 40,584</u>

(1) "Other" includes reimbursements for repairs to electrical equipment damaged by third parties and revenues from our real estate, electrical consulting and public lighting operations.

Operating revenues for 1999 increased by Lit. 796 billion, or 2.0%, compared to 1998. This increase was principally attributable to an increase of Lit. 738 billion, or 2.9%, in sales of electricity, reflecting higher volumes sold, up 1.9%, and an improved sales mix (an increase in higher priced sales of low voltage electricity and a decrease in lower priced high voltage sales), as well as an increase in other revenues of Lit. 306 billion, or 20.3%, reflecting (i) the start of WIND's use of a fiber optic network, which generated lease and other revenues of approximately Lit. 120 billion, (ii) sundry income of approximately Lit. 120 billion, of which approximately Lit. 70 billion reflected the release of risk provisions that were no longer needed, (iii) an increase in work in progress of approximately Lit. 56 billion, and (iv) an increase of approximately Lit. 34 billion in payments from customers for network connections and related services. The positive impact of these factors on operating revenues was offset in part by a decline of Lit. 291 billion, or 2.4%, in the total amount of Equalization Fund contributions that was primarily attributable to a decline in the average prices for fuel to which such payments are indexed.

The following table shows our operating revenues for each of our business segments for the periods presented:

	Year ended December 31,	
	1998	1999
	(in billions)	
Generation.....	Lit. 19,270	Lit. 18,584
Transmission	19,010	16,157
Distribution.....	27,280	28,166
Other activities	4,153	3,803
Eliminations	(29,925)	(26,126)
Total	<u>Lit. 39,788</u>	<u>Lit. 40,584</u>

Generation. Our operating revenues from generation are attributable to the transfer of electricity to our transmission segment and Equalization Fund contributions for fuel costs for electricity generation. Operating revenues for the generation segment fell by Lit. 686 billion, or 3.6%, principally because of lower intersegment prices and of lower Equalization Fund contributions for fuel costs, reflecting lower average market prices of the fuels on which these contributions are based and the time lag between changes in fuel prices and contribution adjustments.

Transmission. Our operating revenues for transmission are attributable to:

- The transportation of electricity we produce or that is purchased by the transmission segment from CIP 6 Producers or foreign producers and transported to our distribution segment;
- Equalization Fund contributions for electricity purchased from CIP 6 Producers and for electricity imports; and
- For the period through September 30, 1999, the sale to our distribution segment of electricity purchased from our generation segment.

Operating revenues for the transmission segment decreased by Lit. 2,853 billion, or 15.0%, principally as a result of the new Group structure that became effective on October 1, 1999, following which our generation segment sells electricity directly to our distribution segment, rather than selling it through our transmission segment.

Distribution. Our operating revenues from distribution in the amount of electricity sold are principally attributable to electricity sales to final customers. Operating revenues for the distribution segment increased by Lit. 886 billion, or 3.2%. This increase was principally attributable to increases in the amount of electricity sold and in our average tariff revenue per kWh sold. Average tariff revenue increased from Lit. 113.6/kWh to Lit. 114.6/kWh, reflecting an increase in the amount of electricity sold to customers using medium and low voltage electricity, who generally pay higher tariffs than customers using high voltage electricity.

Other activities. Our operating revenues from other activities primarily consist of intersegment revenues from engineering and construction services and real estate activities. During 1998 and 1999, these operations did not represent a significant share of our operating revenues or costs.

Eliminations. Eliminations in operating revenues primarily relate to intersegment electricity sales and intersegment engineering and construction services.

Operating expenses

The following table shows a breakdown of operating expenses for each of the periods presented:

	Year ended December 31,	
	1998	1999
	(in billions)	
Operating expenses:		
Personnel.....	Lit. 8,025	Lit. 7,402
Fuel.....	6,663	6,308
Purchased power.....	6,306	6,831
Services and rentals	2,223	2,518
Materials and supplies	1,585	1,526
Provisions	815	752
Other	455	550
Capitalized expenses	(1,924)	(1,930)
Total.....	<u>Lit. 24,148</u>	<u>Lit. 23,957</u>

Operating expenses for 1999 decreased by Lit. 191 billion, or 0.8%, compared to 1998. Expressed as a percentage of operating revenues, operating expenses decreased from 60.7% in 1998 to 59.0% in 1999. The reduction in costs was principally due to decreases in personnel, fuel and materials expenses, the positive effects of which were offset in part by increases in costs related to electric energy purchases from third parties and the use of third-party assets and services, as well as other costs. Each of these items is discussed in more detail below.

Personnel costs decreased by Lit. 623 billion, or 7.8%, mainly due to the decrease in the average number of employees, which declined by 7.1%, from 86,398 in 1998 to 80,253 in 1999. The decline was attributable to early retirements spurred by incentives, as well as the transfer of employees to WIND, So.g.i.n. and the *Gestore della Rete* in connection with our restructuring.

Fuel costs decreased by Lit. 355 billion, or 5.3%, of which Lit. 161 billion reflected lower prices and Lit. 194 billion reflected the different impact in 1999 of our provision for fluctuations in fuel prices. The provision, which was created with an accrual of Lit. 132 billion in 1998, is designed to offset the effect on our costs of the time lag between adjustments to contributions from the Equalization Fund and changes in fuel prices. In 1999, Lit. 62 billion was withdrawn from the provision, reflecting the fact that contributions from the Equalization Fund and fuel purchases were roughly equivalent in 1999, whereas they had been out of balance by Lit. 288 billion in 1998.

Purchased power increased by Lit. 525 billion, or 8.3%, reflecting a 7.8% increase in the volume of energy purchased during the year, primarily from other national producers that qualified as CIP 6 Producers following their introduction of new power plants using renewable resources. The relatively slight increase in overall average purchase cost per unit reflected a higher proportion of energy purchased domestically.

Costs related to the services received from third parties and the use of third-party assets increased by Lit. 295 billion, or 13.3%, due mainly to services supplied by WIND (approximately Lit. 200 billion) and by the *Gestore della Rete* (approximately Lit. 60 billion). These costs, which primarily relate to services that had previously been provided internally, arose for the first time in 1999 as a result of our restructuring and related transfers of assets. Their overall impact on the Group is therefore partially offset by decreases in other items related to intra-Group costs.

In addition, other costs increased by Lit. 95 billion, or 20.9%, due primarily to an increase in the amount of emission taxes paid, while purchases of consumables decreased by Lit. 59 billion, or 3.7%, reflecting increased efficiencies in the use of resources.

The following table shows operating expenses for each of our business segments for each of the periods presented:

	Year ended December 31,	
	1998	1999
	(in billions)	
Generation.....	Lit. 10,043	Lit. 9,758
Transmission	18,450	15,620
Distribution	20,983	20,793
Other activities	4,468	3,865
Eliminations	(29,796)	(26,079)
Total.....	<u>Lit. 24,148</u>	<u>Lit. 23,957</u>

Generation. Operating expenses for the generation segment decreased by Lit. 285 billion, or 2.8%. Operating expenses for generation primarily consist of personnel, maintenance and fuel costs for our production plants. As noted above, fuel costs decreased by Lit. 355 billion, or 5.3%, while other operating expenses increased by Lit. 70 billion, or 2.1%, primarily reflecting an increase in the amount of emission taxes paid, particularly the new carbon tax.

Transmission. Operating expenses for the transmission segment decreased by Lit. 2,830 billion, or 15.3%. Operating expenses for transmission consist of costs associated with running our transmission network, the transfer prices paid to the generation segment for electricity for the period through September 30, 1999 and the cost of electricity purchases from CIP 6 Producers and electricity imports. As noted above, the total cost of electricity purchases from third parties increased by Lit. 525 billion, or 8.3%, primarily as a result of a 7.8% increase in the volume of energy purchased during the year. Purchases from CIP 6 Producers increased by 14.4%, while the volume of imports increased by 2.6%. The decrease in the segment's operating expenses also reflected the change in the Group's structure after September 30, 1999, particularly the fact that the transmission segment no longer buys electricity from the generation segment for sale to the distribution segment.

Distribution. Operating expenses for the distribution segment principally consist of costs associated with running our distribution network and (for the period through September 30, 1999) the transfer price paid to the transmission segment for electricity purchased from and transported by that segment. Following the restructuring described above, the distribution segment now buys electricity directly from the generation segment, with a portion of the purchase price being payable to the transmission segment for its services. Operating expenses for the distribution segment decreased by Lit. 190 billion, or 0.9%, primarily reflecting a reduction in personnel costs related to the continued decline in the segment's headcount.

Other activities. Operating expenses for other activities principally consist of costs attributable to performing corporate functions and the Group's information technology, real estate, engineering and construction, research and telecommunications services. Operating expenses for these activities decreased by Lit. 602 billion, or 13.5%. The decrease was concentrated in engineering and construction (approximately Lit. 400 billion), telecommunications (approximately Lit. 100 billion) and nuclear operations (approximately Lit. 100 billion), reflecting lower capital expenditures in 1999 and the transfer of our discontinued nuclear operations to So.g.i.n. and that of certain telecommunications services to WIND.

Eliminations. Eliminations for operating expenses principally consist of the elimination of intersegment electricity purchases and service contracts.

Depreciation and amortization

The following table shows depreciation and amortization for each of our business segments for the periods presented:

	Year ended December 31,			
	1998		1999	
	(in billions)			
Generation.....	Lit.	2,297	Lit.	2,493
Transmission.....		385		427
Distribution.....		2,863		2,880
Other activities.....		491		401
Total.....	Lit.	6,036	Lit.	6,201

Depreciation and amortization for 1999 increased by Lit. 165 billion, or 2.7%, compared to 1998. This increase was principally attributable to an increase in depreciation related to assets acquired or entering service in 1998. Under Italian GAAP, assets are depreciated at 50% of the annual rate for the year in which they are acquired or enter service; depreciation therefore increased when the full rates become applicable to these assets in 1999.

Operating income

The following table shows operating income for each of our business segments for the periods presented:

	Year ended December 31,			
	1998		1999	
	(in billions)			
Generation.....	Lit.	6,930	Lit.	6,333
Transmission		175		110
Distribution.....		3,434		4,493
Other activities		(806)		(463)
Eliminations		(129)		(47)
Total.....	Lit.	9,604	Lit.	10,426

Operating income for 1999 increased by Lit. 822 billion, or 8.6%, compared to 1998, principally due to increased operating revenues and lower operating costs, which were partially offset by an increase in depreciation.

Generation. Operating income for generation fell by Lit. 597 billion, or 8.6%. The principal reasons for this decrease were an increase of Lit. 196 billion in depreciation, a decrease in intersegment sales of Lit. 195 billion, an increase in emission taxes (Lit. 70 billion) and the non-recurrence in 1999 of the excess Equalization Fund contributions for fuel costs of Lit. 288 billion recorded in 1998 as a result of the effect of the timing of the calculation of the index used by the Energy Authority to calculate those contributions. These negative factors were partially offset by a decrease in personnel costs of Lit. 111 billion.

Transmission. Operating income for the transmission segment fell by Lit. 65 billion, or 37.1%. The principal reason for the decrease was the change in the Group's structure effective October 1, 1999, as noted above.

Distribution. Operating income for the distribution segment increased by Lit. 1,059 billion, or 30.8%. The improvement was primarily due to higher gross margins of Lit. 782 billion earned on energy sales that reflected a 1.9% increase in volume (Lit. 490 billion), an increase in average revenue per kWh sold due to an increase in sales of higher priced low voltage electricity (Lit. 250 billion) and lower costs of intersegment energy purchases (Lit. 42 billion). The increase in operating income also reflected the positive impact of a Lit. 310 billion reduction in personnel costs that reflected the segment's lower headcount.

Other activities. The operating loss for other activities decreased by Lit. 343 billion, or 42.6%, compared with 1998, primarily due to the decrease in operating expenses described above.

Financial expense

Net financial expense decreased by Lit. 349 billion, or 23.6% in 1999, compared with 1998, primarily as a result of the reduction in the Group's average debt outstanding, which decreased by 24.0%, from Lit. 28,121 billion in 1998 to Lit. 21,370 billion in 1999, as well as lower average market interest rates for the period. The decrease in outstanding debt reflected reductions through prepayment and payments at maturity. Long-term debt, including the current portion, decreased by 22.6%, from Lit. 26,736 billion at December 31, 1998 to Lit. 20,699 billion at December 31, 1999.

Equity losses

The Lit. 439 billion charge represents the recognition of our share of equity losses in WIND. In 1999, we began accounting for our investment in WIND under the equity method of accounting. We used the cost method of accounting in previous periods because WIND had very limited operations before 1999. You should read note 2 to our consolidated financial statements for a discussion of our consolidation principles.

Extraordinary income (expense)

Net extraordinary expense increased 16.5%, from Lit. 907 billion in 1998 to Lit. 1,057 billion in 1999. Details of our extraordinary expenses for 1999 are presented above in the comparison with those for 2000.

Extraordinary expenses in 1998 principally consisted of:

- A provision of Lit. 523 billion principally to record at fair value two construction projects that were halted by management in previous years. We estimated the projects' fair values using available market prices and potential estimated sales prices to unrelated third parties. A provision was also taken on these projects in 1997. The additional provision in 1998 was based on the reduced probability of a favorable sale of these assets because of the technological change from the time these traditional plants began to be constructed. In particular, because of technological advances, combined cycle plants now cost less to construct than traditional plants and they also are more efficient than traditional plants. Additionally, the economic crisis in 1998 in emerging markets, which represent the potential target for this kind of traditional technology, has reduced the probability of sales to an external party. Consequently, at the end of 1998, we reviewed the estimate of the fair value of these

assets, not only using some of the above criteria, but also on the basis of potential utilization in construction joint ventures by our engineering and construction subsidiary, Enelpower;

- A provision of Lit. 386 billion relating to various voluntary early retirement programs available to employees and managers. In February and May 1998, we made two different temporary offers to managers to take voluntary early retirement. The first program was available from February 1998 through March 1998. The second program was opened in May 1998 and remains open. In April 1998, we also made a temporary offer to employees to take early retirement during May and June 1998. In total, 124 managers and 4,896 employees accepted these offers. Both programs allowed for a one-time payment calculated on the basis of the plans' formula; and
- A provision of Lit. 166 billion accrued for a one-time additional benefit to active managers. The managers and we agreed to these benefits prior to the establishment in 1998 of Fondenel, the pension fund for Enel managers.

These extraordinary expenses were offset in part by extraordinary income of Lit. 109 billion related to the reversal of a court judgment against us. A receivable was recorded for this favorable judgment, and the full amount has been subsequently collected.

You should read note 24 to our consolidated financial statements for a discussion of the different criteria used under Italian GAAP and U.S. GAAP for determining what constitutes an extraordinary item.

Income taxes

The following table shows a breakdown of our income taxes for the periods indicated.

	Year ended December 31,	
	1998	1999
	(in billions)	
Income taxes:		
Current taxes	Lit. 2,785	Lit. 2,834
Deferred tax charge	734	986
Recognition of prior years deferred tax assets	(588)	(562)
Total.....	<u>Lit. 2,931</u>	<u>Lit. 3,258</u>

The total tax charge for the year ended 1999 was Lit. 3,258 billion, which was Lit. 327 billion or 11.2% higher than the charge for 1998. The principal reasons for this increase were:

- An increase of Lit. 582 billion, or 8.1%, in the Group's income before income taxes, which would have produced an increase in income taxes of Lit. 279 billion, or 9.5%, at the statutory tax rate; and
- A decrease in our recognition of deferred tax assets from prior years of Lit. 26 billion. Our application of new Italian accounting standard No. 25 had resulted in our recognition of a deferred tax asset of Lit 588 billion as of January 1, 1998. We had not previously recorded the full benefit of deferred tax assets, which primarily related to reserves for nuclear charges that had been recorded under Italian GAAP, due to the uncertainty of realization of the assets. During 1999, the issue of which assets and liabilities of our discontinued nuclear operations that would be transferred to our

new subsidiary, So.g.i.n., was clarified and, as a result, Lit. 562 billion of deferred tax assets were recognized in 1999 for these items. The reorganization and eventual transfer of our discontinued nuclear operations is discussed in more detail in “Item 4. Information on the Company—Regulatory Matters—Environmental Matters—Discontinued nuclear operations.”

Our effective tax rate was 40.6% in 1998 and 41.8% in 1999. The following table shows our tax rates as a percentage of income before taxes for the periods indicated.

	Year ended December 31,	
	1998	1999
Effective tax rate.....	40.6%	41.8%
Current tax rate.....	38.6%	36.3%
Deferred tax rate	10.2%	12.7%
Impact of recognition of deferred tax assets	(8.2%)	(7.2%)

Net income

Net income increased 5.9% from Lit. 4,286 billion in 1998 to Lit. 4,541 billion in 1999. This increase was principally due to increased operating income and decreased financing costs, partially offset by equity losses and higher income taxes.

Inflation

The tariffs for sales of electricity in effect over the periods covered by the financial statements included in this annual report were not adjusted for inflation. Inflation in Italy was 1.9% in 1998, 1.7% in 1999 and 2.6% in 2000. As a result, the real value of tariffs decreased over time due to inflation.

U.S. GAAP Reconciliation

We have prepared our consolidated financial statements in accordance with Italian GAAP, which differ in certain respects from U.S. GAAP. The significant differences between Italian GAAP and U.S. GAAP, as applied to our consolidated financial statements, relate to the following:

- Fixed assets and the related depreciation;
- Capitalized interest and the related depreciation;
- Unbilled revenues;
- Pension and employee termination accounting;
- Other post retirement benefits accounting;
- Social Security withholdings and contribution;
- Derivatives;
- Effect of U.S. GAAP adjustments on WIND equity;

- Restructuring reserves;
- Extraordinary contributions to the Italian national pension system;
- Accounting for income taxes;
- Investment in equity securities;
- Extraordinary income and expenses; and
- Consolidation of WIND.

You should read note 24 to our consolidated financial statements for a more detailed discussion of the principal differences between Italian GAAP and U.S. GAAP that affect our consolidated financial statements, and note 25 to our consolidated financial statements for a reconciliation of net income and shareholders' equity between Italian GAAP and U.S. GAAP.

Our consolidated net income under U.S. GAAP was approximately, Lit. 3,531 billion in 1998, Lit. 4,446 billion in 1999, and Lit. 3,565 billion in 2000 as compared to consolidated net income under Italian GAAP of Lit. 4,286 billion in 1998, Lit. 4,541 billion in 1999 and Lit. 4,236 billion in 2000. Our shareholders' equity under U.S. GAAP was Lit. 34,785 billion at December 31, 1998, Lit. 32,895 billion at December 31, 1999 and Lit. 33,767 billion at December 31, 2000, compared with shareholders' equity under Italian GAAP of Lit. 35,880 billion at December 31, 1998, Lit. 34,034 billion at December 31, 1999 and Lit. 35,457 billion at December 31, 2000.

The differences between U.S. GAAP and Italian GAAP also have an impact on operating income at the segment level. The differences result primarily from property-related adjustments and different classifications of extraordinary expenses. In addition, beginning in 2000, the extraordinary contribution to the national pension system represents a pre-tax reconciliation difference of Lit. 1,118 billion in 2000. You should read "Item 6. Directors, Senior Management and Employees—Employees—Employee benefits" for a discussion of these contributions.

Operating income by segment for 1998 under U.S. GAAP approximates Lit. 6,093 billion from generation, Lit. 228 billion from transmission and Lit. 3,317 billion from distribution, compared to 1998 operating income under Italian GAAP of Lit. 6,930 billion from generation, Lit. 175 billion from transmission and Lit. 3,434 billion from distribution. Operating income by segment for 1999 under U.S. GAAP approximates Lit. 5,897 billion from generation, Lit. 90 billion from transmission and Lit. 4,256 billion from distribution, compared to 1999 operating income under Italian GAAP of Lit. 6,333 billion from generation, Lit. 110 billion from transmission and Lit. 4,493 billion from distribution. Operating income by segment for 2000 under U.S. GAAP approximates Lit. 4,352 billion from generation, Lit. 413 billion from transmission and Lit. 1,765 billion from distribution, as compared to operating income for 2000 under Italian GAAP of Lit. 4,558 billion from generation, Lit. 459 billion from transmission and Lit. 2,881 billion from distribution.

New Accounting Standard

In 1998, the Financial Accounting Standards Board, or FASB, issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 was later amended by SFAS 137 and 138 (collectively referred to as SFAS 133). SFAS 133 requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 also requires that changes in the derivative's fair

value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

We adopted SFAS 133 on January 1, 2001. As part of this process, we reviewed all contracts to determine if they were derivatives or contained embedded derivatives. Derivatives involved in "normal-purchase/normal-sale" transactions were documented and excluded from further treatment under SFAS 133. As a result of adopting SFAS 133, for U.S. GAAP purposes, we will record assets and liabilities representing the difference between the derivatives' previous carrying amounts and their fair values under SFAS 133, with a corresponding amount recorded in either net income or other comprehensive income. Transition adjustments resulting from adoption of this Statement will be reported under U.S. GAAP as net income or other comprehensive income, as appropriate based on the hedging relationship, if any, that existed for that derivative. Based on current FASB interpretations, we estimate that the cumulative effect of adopting SFAS 133 in 2001 will be to decrease shareholders' equity by Lit. 472 billion and net income by Lit. 10 billion.

However, the ultimate financial impact of adopting SFAS 133 depends upon certain pending interpretations, currently under FASB consideration, including those related to "normal-purchases/normal-sales," and upon detailed analysis of potential embedded derivatives included in our contracts. The ultimate financial impact on us depends upon the resolution of the above issues and could be materially different than the estimates stated above.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity is cash generated from operations. Net cash provided by operating activities was Lit. 9,484 billion in 2000, as compared to Lit. 13,512 billion in 1999. The decrease was primarily attributable to lower cash flows related to Equalization Fund receivables of approximately Lit. 4,009 billion.

Cash used in investing activities was Lit. 6,639 billion in 2000, as compared to Lit. 4,553 billion in 1999. The increase was primarily attributable to our increased level of investment in WIND (particularly the increase in our percentage ownership following the exit of Deutsche Telekom), as well as our investments in Echelon and other new ventures.

Cash used in financing activities was Lit. 2,921 billion in 2000, as compared to Lit. 10,786 billion in 1999. The significant decrease reflected a greater level of net debt repayments in 1999, as well as an increase in short-term borrowings and decrease in the distribution of dividends and reserves in 2000.

Capital resources

At December 31, 2000, our outstanding medium-term and long-term debt was Lit. 15,459 billion and our short-term debt, including the current portion of long-term debt, was Lit. 12,404 billion. At December 31, 1999, our outstanding medium and long-term debt was Lit. 16,961 billion and our short-term debt, including the current portion of long-term debt, was Lit. 6,741 billion. Financial expense totaled Lit. 1,545 billion in 2000, as compared to Lit. 1,487 billion in 1999.

We maintain committed lines of credit for Lit. 21,361 billion (Lit. 18,135 billion of which were unused as of December 31, 2000) and 18-month borrowings for Lit. 1,983 billion, which we borrowed in

June 2000, and uncommitted lines of credit and other short-term borrowing arrangements with banks in Italy with maximum borrowing limits aggregating Lit. 6,990 billion as of December 31, 2000 (Lit. 5,153 billion of which were unused as of that date). The average interest rate on our short-term borrowings was approximately 4.67% as of December 31, 2000. We believe that our bank facilities, together with our portfolio of cash and cash equivalents, are sufficient to meet our present working capital needs and requirements for capital expenditures.

We are subject to restrictions on the use of borrowings under committed borrowing facilities for Lit. 19,363 billion. Funds obtained under such facilities may only be used to finance our working capital needs or invest in companies of our Group active in the electricity, gas, water and telecommunications sectors.

At December 31, 2000, only 3.1% of our long-term debt (including current maturities of long-term debt) was denominated in currencies of countries that are not participating in the Euro and 23.0% of our long-term debt was guaranteed as to principal and interest by the Italian government. At December 31, 2000, 61.0% of our long-term debt bore interest at floating rates and 39.0% bore interest at fixed rates. To improve our mix of floating and fixed-rate obligations, we have entered into certain interest rate hedging contracts, particularly interest rate swaps and collars. Taking these hedging positions into account using the nominal values of our interest rate collars, we have estimated that we are exposed to interest rate fluctuations with respect to approximately 31% of our outstanding debt. You should read “Item 11. Quantitative and Qualitative Disclosure About Market Risk—Price risk management and market risk information” for a discussion of those contracts. Without giving effect to these arrangements, the average interest rate on our outstanding long-term debt as of December 31, 2000 was approximately 5.5%, as compared to approximately 4.6% in 1999.

In November 2000, we entered into a €10 billion revolving credit facility agreement with a syndicate of Italian and international banks, mainly to finance a portion of our acquisition of Infostrada and contribute to the initial payment of Lit. 4,000 billion for UMTS license. The facility has a maturity of 364 days, with an option to extend for an equal period. We have also established a program to issue €3 billion in aggregate principal amount of medium term notes. On November 28, 2000, we completed the first offering of notes under this program, issuing notes with a total principal amount of €750 million that bear interest at a fixed rate of 5.875% and mature in 5 years. In May 2001, we increased the aggregate principal amount of notes that we can issue under this program to €7.5 billion.

In 2000, we entered into a €500 million 15-year loan with the European Investment Bank. We entered into a second 15-year loan with the European Investment Bank for an additional €500 million in the first quarter of 2001. The proceeds of these loans will finance a portion of the development of our distribution network in central and southern Italy.

In June 2001, Enel Investment Holding BV, a wholly owned finance subsidiary of Enel S.p.A, issued €2 billion in medium term notes guaranteed by Enel S.p.A. in order to refinance a portion of the debt incurred in connection with the acquisition of Infostrada. The notes have an annual coupon of 5% and mature in 2003.

WIND plans to raise a €5.5 billion syndicated loan in the near future. The loan is intended to refinance €3.7 billion of existing debt and pay for new investments in high-speed broadband technology. We also plan to raise an additional €1.5 billion to refinance Infostrada’s existing debt and projected cash requirements.

Our borrowing requirements are not seasonal.

We manage our short-term financial needs through our centralized treasury department, with the goal of optimizing cash flows for all the companies of the Group on a daily basis. We use short-term borrowings facilities in order to finance our working capital needs with the goal of ensuring flexible and cost-effective financing for all companies of the Group.

Commitments

Although the actual amount of our capital expenditures in future periods will depend on various factors that cannot presently be foreseen, we expect to make capital expenditures of approximately Lit. 36,100 billion in the period from 2001 to 2005. This estimate excludes financial investments, capital expenditures to be made by WIND and includes those scheduled to be made with regard to generating facilities now owned by the Gencos (an aggregate total of approximately Lit. 6,370 billion) and those being transferred to the joint venture with the Region of Valle d'Aosta.

Our planned capital expenditures include:

- Approximately Lit. 12,650 billion in our generation businesses, including those scheduled to be made by the Gencos, and by Erga;
- Approximately Lit. 1,700 billion in our transmission business;
- Approximately Lit. 16,400 billion in our distribution business, including approximately Lit. 3,600 billion for our remote metering project; and
- Approximately Lit. 2,100 billion in our information technology, real estate and research and development activities.

We have entered into various fuel supply contracts primarily for the purchase of fuel oil and natural gas. We expect that our expenditures related to these commitments will approximate an aggregate of Lit. 23,316 billion for the period from January 1, 2001 through December 31, 2005.

We also have unconditional purchase obligations for electric power. Our aggregate expenditures related to these commitments are expected to total Lit. 6,788 billion for the period from January 1, 2001 through December 31, 2005. Starting from January 1, 2001, our commitments related to electricity purchases refer only to our long-term import contracts and no longer include domestic purchase contracts, which have been transferred to the *Gestore della Rete* effective as of such date.

We have made significant capital investments in developing our telecommunications business and expect that we will continue to be required to do so. Recently, we incurred a substantial amount of debt and made significant expenditures in connection with WIND's purchase of a third generation UMTS mobile license and our acquisition of Infostrada. You should read "Item 4. Information on the Company—Business—Telecommunications—WIND—Financial Results." WIND will be required to make substantial investments during the next several years in order to build out its UMTS network and develop related services and products, as well as paying an additional Lit. 700 billion in respect of its license over the next ten years.

We intend to fund our capital expenditures and the other commitments described above with our cash flows from operations.

European Single Currency

The European Economic and Monetary Union introduced the Euro on January 1, 1999. On that date, 11 member states of the European Union, including Italy, adopted the Euro as their local currency. Italy's national currency and that of the other ten countries participating in the Euro became components of the Euro on that day. Greece joined the European Economic and Monetary Union in 2001. The Euro is now available only for currency trading on currency exchanges and non-cash (banking) transactions. Bills and coins denominated in the former national currencies, or legacy currencies, will remain legal tender through January 1, 2002. Beginning on January 1, 2002, Euro-denominated bills and coins will be issued for cash transactions. Following a transition period during which bills and coins denominated in both legacy currencies and the Euro will be legal tender, the participating countries will withdraw all bills and coins denominated in legacy currencies and use the Euro exclusively.

Operational impact

We adopted the Euro as our reporting currency starting with the first quarter of 2001 and expect to declare all dividends in Euro starting from July 9, 2001. Our shares have been quoted on *Telematico* in Euro from the date of their initial listing.

The introduction of the Euro will require changes in our information technology and other systems in order to accommodate the use of the Euro in our corporate transactions and financial reporting. For example, we will be required to make changes to our information systems in order to be able to produce bills for our customers in Euro. The estimated total cost for such changes is Lit. 20 billion, Lit. 5 billion of which were incurred in 2000.

Business and competitive implications

We believe that the Euro will not have a material impact on our revenues because virtually all our revenues are generated within Italy and as a result do not vary with exchange rate fluctuations. Most of our non-fuel costs, particularly labor costs, are incurred within Italy. Most of our fuel costs are denominated in dollars and should not be significantly affected by the introduction of the Euro. However, there can be no assurance whether and to what extent the introduction of the Euro will affect our business, financial condition and results of operations, particularly if the geographic diversification of our operations increases. Please refer to "Item 3. Key Information—Risk Factors—The phasing in of the Euro by January 1, 2002 may pose operational problems and require additional expenditures" for further information.

Trend Information

Please refer to "- Overview" and "- Outlook" for information relating to recent trends in our production, sales, costs and selling prices, as well as events that are reasonably likely to have a material effect on our net sales, operating income, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition. Please refer to "- Commitments" for a discussion of our future capital expenditures.

Item 6. Directors, Senior Management and Employees

DIRECTORS

Our board of directors is responsible for management of our business. It has the power to take all actions consistent with the corporate purpose described in our by-laws, except for actions that by law or

under our by-laws may only be taken by our shareholders. Our board is elected for a term of up to three years. Members are eligible for re-election. The board must consist of not less than three and not more than nine members. The board currently consists of seven members whose three-year terms are scheduled to expire in 2002.

The chairman and chief executive officer are our legal representatives. The chief executive officer generally has the power to represent us within the scope of the functions delegated to him. For specific actions or categories of actions, the power to represent us can be delegated by the holder of such power to one of our employees or to third parties.

The quorum for board meetings is a majority of the members in place. Resolutions are adopted by a majority of votes of those present. A board meeting may be called by the chairman on his or her own initiative, must be called upon a request of the majority of the board's members or upon request of the board of statutory auditors (or at least two of its members) and must also be called upon a request for a meeting for specific purposes of two directors (or one director when the board is composed of three members).

The board has the power to delegate certain of its powers to one of its members, and determines the powers and the functions delegated to such person. Under applicable law and our by-laws, the board may not delegate certain of its responsibilities, such as the approval of the financial statements or proposals of increases or reductions of our capital.

In January 2000, our board of directors established a compensation committee. This committee is composed of three members with no delegated powers. The current members of this committee are Carlo Angelici, Francesco Taranto and Carlo Tamburi. The compensation committee submits to the board of directors proposals for resolutions concerning the compensation of the chief executive officer, the directors to which certain powers have been delegated, and senior executives.

In January 2000, our board of directors also established an internal audit committee. This committee is currently composed of three members with no delegated powers: Giuseppe Morchio, Franco Morganti and Enrico Testa. This committee has the authority to evaluate the activity and the periodic reports of both the internal and external auditors and is primarily charged with verifying that Enel's internal controls system is adequate and in turn reporting to the full board of directors.

The Treasury Ministry has confirmed that as long as it remains our majority shareholder, it intends to continue to participate in the nomination and election of our board in order to protect its investment as a shareholder. Under current law, as long as the Treasury Ministry remains our majority shareholder, the Court of Accounts, which supervises the financial management of government-owned entities, will exercise certain powers to protect the financial interests of the Italian state. For example, the Court of Accounts has the right to inspect our financial statements and regularly reports its findings to the President of the Senate and the President of the House of Representatives. In addition, during this period, a non-voting representative of the Court of Accounts may attend the meetings of our board of directors and our board of statutory auditors.

The names of the seven members of our board, their current position and the year when each was initially appointed as director are set forth in the following table. The term of appointment of the current board will expire in 2002.

<u>Name</u>	<u>Position</u>	<u>Year Initially Appointed</u>
Enrico Testa	Chairman	1996
Francesco Tatò	Director and Chief Executive Officer	1996
Carlo Angelici	Director	1999
Giuseppe Morchio	Director	2001
Franco Morganti	Director	1999
Carlo Tamburi	Director	2001
Francesco Taranto	Director	2000

Claudio Poggi was a Director of Enel from 1999 to February 2001.

We have briefly summarized below the principal business activities, experience and other principal directorships, if any, of each of our current directors.

Enrico Testa. Enrico Testa was national secretary and subsequently president of the Italian environmental association Legambiente from 1980 to 1987. He was a member of the Italian Parliament from 1987 to 1994. From 1994 to 1996, Mr. Testa was chairman of ACEA (the municipal utility company of Rome) and of CISPEL (the Italian federation of local public-sector utility companies), as well as a member of CNEL (the National Council for the Economy and Labor). Since 1996, he has been the Chairman of Enel, as well as chairman of a number of Enel Group companies and a director of WIND.

Francesco Tatò. Francesco Tatò gained professional experience for many years in the Olivetti Group, as well as holding numerous positions on the boards of directors of a number of important Italian and foreign companies. He was a managing Director of Arnoldo Mondadori Editore S.p.A., a major Italian publishing company, from 1984 to 1986 and from 1991 to 1994, and served from October 1993 to February 1995 as managing director of Fininvest S.p.A., the holding company for one of Italy's largest media companies. Since 1996, he has been Enel's Chief Executive Officer and *direttore generale* since 2000, as well as chairman of a number of Enel Group companies, including Enel Distribuzione S.p.A., Enelpower S.p.A., Terna S.p.A., Enel Produzione S.p.A., Elettrogen S.p.A., Eurogen S.p.A., Interpower S.p.A. and director of a number of Enel Group companies, including WIND.

Carlo Angelici. Carlo Angelici has taught since 1974 at various Italian universities, becoming a tenured professor of commercial law in 1983. Since 1989, he has been a professor of commercial law, becoming Dean of the Faculty Jurisprudence at Rome's "La Sapienza" University in 1995. Since 1983, he has been a member of the commission created by the Italian Ministry of Justice for the implementation of EU directives on company law, and from 1984 to 1987 represented the Italian Government at several sessions of the United Nations Commission on International Trade Law. He has been a member of Enel's Board of Directors since October 1999.

Giuseppe Morchio. Giuseppe Morchio began his career with the Manuli Group, moving in 1980 to the Pirelli Group, where he held a number of positions, including those of chairman and managing director of Pirelli Neumaticos in Spain (1989-1991) and Pirelli Tires North America (1991-1993), and that of managing director of the cables and systems division of the parent company Pirelli S.p.A. (1995 - January 2001). He has been a member of Enel's Board of Directors since February 2001.

Franco Morganti. Franco Morganti began his career at Olivetti S.p.A. and SGS S.p.A., and subsequently started his own business. Since 1974, he has offered strategic consulting services in the field of telecommunications, for both the public and private sectors. He was a member of the board of directors of STET S.p.A. (now Telecom Italia S.p.A.) from 1981 to 1984, and from 1991 to 1997 served as a member of the advisory committee on technology and market strategies of STET S.p.A. Mr. Morganti has also been vice-chairman of the Databank Group since 1989. He has been a member of Enel's Board of Directors since December 1999.

Carlo Tamburi. Carlo Tamburi held a number of executive positions at Citibank's Milan branch from 1985 to 1990. From 1990 to 1993, he was joint general manager for marketing and credit activities at Cofiri S.p.A. and since 1994 has worked in IRI S.p.A.'s finance department, becoming joint general manager in charge of privatizations. Since 2001, he has been a Director of the Finance and Privatizations Department of the Italian Treasury. He has been a member of Enel's Board of Directors since January 2001.

Francesco Taranto. Francesco Taranto began his career with a brokerage firm in Milan, subsequently working (from 1965 to 1982) at Banco di Napoli S.p.A.. He then held numerous managerial positions in companies operating in the mutual fund sector, becoming head of security management at Eurogest S.p.A. (from 1982 to 1984) and subsequently general manager of Interbancaria Gestioni S.p.A. (from 1984 to 1987). Having moved to the Prime Group (where he served from 1987 to 2000), he was for a long time the managing director of the holding company of that group. He has been a member of Enel's Board of Directors since October 2000.

SENIOR MANAGEMENT

The table below sets forth our executive officers, who are not also directors, their positions, the year they were appointed to such positions and their ages as of June 1, 2001:

<u>Name</u>	<u>Age</u>	<u>Management Position</u>	<u>Year Joined the Group</u>	<u>Year Appointed to Current Position</u>
Mario Barozzi.....	38	Strategies, Planning and Business Development	1997	1998
Alessandro Bufacchi.....	54	E-Business Development	2000	2000
Vincenzo Cannatelli	48	Press and Communication	1999	2000
Antonio Cardani.....	51	Audit	2000	2000
Salvatore Cardillo	51	Legal Affairs	2000	2000
Giuseppe Carta.....	65	Regulatory Relations	1961	1998
Fulvio Conti.....	53	Chief Financial Officer	1999	1999
Angelo Delfino.....	61	Human Resources	1997	1999
Massimo Romano.....	42	Institutional Relations	1997	1997
Claudio Sartorelli	56	Corporate Affairs	1970	1996
Luciana Tarozzi.....	57	Accounting	1965	1997

We have briefly summarized below the principal business activities and experience of our executive officers listed above.

Mario Barozzi. Mario Barozzi worked at Olivetti S.p.A. from 1995 to 1997. He was assistant to the chairman and, subsequently, co-head of the Special Finance department. He joined the Company in 1997, and became head of the Strategies, Planning and Business Development department in 1998, which is the position he still holds. He is currently director of a number of Enel Group companies, including Enel Distribuzione S.p.A., Enel Trade S.p.A., Enelpower S.p.A., Terna S.p.A., Enel Produzione S.p.A. and Infostrada.

Alessandro Bufacchi. Alessandro Bufacchi held several positions in a number of Italian computer companies, including Ing. Olivetti & C., where he served as head of the Operations and Marketing department from 1993 to 1996, Wang Global Italia, where he served as head of the New Business Development department from 1998 to 1999 and Getronics S.p.A., where he served as head of the Business Development department in 1999. He joined the Enel Group in 2000. He has been head of the Company's E-Business Development department since May 2000.

Vincenzo Cannatelli. Vincenzo Cannatelli worked for Eltag Bailey Process Automation NV from 1993 to 1999, where he held the position of managing director. He joined the Enel Group in 1999. He is currently head of the Company's Press and Communication department. He also serves as director of some Enel Group companies, including Elettrogen S.p.A., Eurogen S.p.A. and Interpower S.p.A.

Antonio Cardani. Antonio Cardani served as Head of the Administration department of Olivetti S.p.A. from 1994 to 1995. He served as head of Administration and Finance department of Telemedia S.p.A. from 1995 to 1997. He joined Telecom Italia S.p.A. in 1997, where he was responsible for strategic planning from 1997 to 1998 and for planning and organizational development from 1998 to 2000. He has been head of the Company's Audit department since 2000.

Salvatore Cardillo. Salvatore Cardillo has served as the General Counsel of a number of Italian companies, including Alitalia S.p.A. (from 1991 to 1997), Edison S.p.A., Compart Group and Montedison S.p.A. (from 1997 to 1999) and De Agostini S.p.A., a major Italian publishing company, from 1999 to 2000. He joined the Company in 2000 as General Counsel, which is the position he still holds.

Giuseppe Carta. Giuseppe Carta joined the Enel Group in 1961. He held a number of positions within the Company before becoming head of the Company's Strategic Affairs department in 1996 and subsequently head of the Company's Regulatory Relations department in 1998, which is the position he still holds.

Fulvio Conti. Fulvio Conti has held numerous positions in a number of Italian companies during the 1990's. He served from 1993 to 1996 as head of the Montedison-Compart Group's Finance department. He served from 1996 to 1998 as Chief Financial Officer and General Manager of Ferrovie dello Stato S.p.A. He held a number of positions, including Chief Financial Officer and General Manager, in companies of the Telecom Italia Group in 1998 and 1999. In 1999, he joined the Enel Group. He is currently head of the Company's Finance department and director of a number of Enel Group companies, including Enel Distribuzione S.p.A., Enel Trade S.p.A., Enelpower S.p.A., Terna S.p.A., Enel Produzione S.p.A., Elettrogen S.p.A., Eurogen S.p.A., Interpower S.p.A. and Infostrada.

Angelo Delfino. Angelo Delfino served as head of Olivetti Italia S.p.A.'s Human Resources department from 1991 to 1996, before joining the Enel Group in 1997. He is currently head of the Company's Human Resources department and director of a number of Enel Group companies, including Enel Distribuzione S.p.A., Enelpower S.p.A., Enel Produzione S.p.A. and Infostrada.

Massimo Romano. Massimo Romano served as head of the Institutional Relations department of the Ilva Group from 1990 to 1994 and as head of the External Relations department of the Lucchini Group from 1994 to 1997. He joined the Company in 1997, as head of the Company's Institutional and International Relations department, which is the position he still holds.

Claudio Sartorelli. Claudio Sartorelli joined the Company in 1970. Since then he has held a number of positions within the Company. He was head of the office of the Chairman of the Board of Directors from 1996 to 1998 and General Counsel from 1996 to 2000. He has been head of the Company's Corporate Affairs department since 1996. He is currently also a director of Ape Gruppo Enel S.p.A. and Infostrada.

Luciana Tarozzi. Luciana Tarozzi joined the Company in 1965. Since then she has held a number of positions within the Company. She was head of the Control and Reporting department from 1996 to 1997, and became head of the Accounting department in 1997, which is the position she still holds. She is currently also a director of Enelpower S.p.A.

BOARD OF STATUTORY AUDITORS

Pursuant to the Italian Civil Code, in addition to electing the board, our shareholders also elect a board of statutory auditors.

Statutory auditors remain in office for a three-year term and may be re-elected for consecutive terms or substituted automatically by an alternate auditor if they resign or are unable to complete their term. Statutory auditors may be removed only for cause and with the approval of an Italian court.

The board of statutory auditors is responsible for reviewing our management and financial reporting and financial condition. In conducting this review the board of statutory auditors has a duty to the shareholders, to whom it reports, and to us. The role of the board of statutory auditors includes reviewing our management, and, in particular, ensuring compliance with applicable law and our by-laws. Furthermore, the statutory auditors must ensure that we maintain adequate organizational structure, internal controls and administrative and accounting systems.

Our current board of statutory auditors was appointed in May 2001. The term of its members will expire in 2004. At that time, new members will be appointed by the shareholders. The names of the current members, their positions and the year during which each was initially appointed are set forth in the following table.

<u>Name</u>	<u>Position</u>	<u>Year Initially Appointed</u>
Bruno De Leo ⁽¹⁾	Chairman	1992
Gustavo Minervini.....	Auditor	1992
Franco Fontana.....	Auditor	2001
Roberto Ulissi.....	Alternate Auditor	2001
Francesco Bilotti.....	Alternate Auditor	1995

(1) Employee of the Italian Ministry of Treasury.

Oreste Piemontese was an auditor of Enel from 1995 to May 2001. Umberto Aprea was an alternate auditor of Enel from 1998 to May 2001.

In addition, under Italian securities regulations, our accounts must be audited by external auditors appointed by the shareholders. The appointment is communicated to the *Commissione Nazionale per le Società e la Borsa*, or CONSOB. At present, our external auditors, for both consolidated and non-consolidated accounts, are Arthur Andersen S.p.A. Under Italian securities laws, listed companies may not appoint the same auditors for more than three consecutive three-year terms. The external auditors issue an opinion that our financial statements are presented fairly in all material respects. Their opinion is made available to our shareholders prior to the annual shareholders meeting.

EXECUTIVE COMPENSATION

Applicable Italian regulations (Article 78 of CONSOB Regulation No. 11971, issued on May 14, 1999) require us to disclose the following information regarding the compensation for 2000 of each of the directors and statutory auditors in our financial statements. The following amounts include compensation paid by our subsidiaries in certain cases.

<u>Name</u>	<u>Positions(s) Held</u>	<u>Base Compensation ⁽¹⁾</u>	<u>Other Compensation</u>
<u>Fees (in thousands of lire)</u>			
Enrico Testa	Chairman of the Board of Enel, Conphoebus, Sfera S.p.A., Elettroambiente S.p.A., Director of WIND S.p.A., Director of SEI S.p.A.	626,757	35,533
Francesco Tatò	Chief Executive Officer of Enel, Chairman of the Board of Cesi S.p.A., Enel Produzione S.p.A., Enelpower S.p.A., Enel.Hydro S.p.A., Terna S.p.A., Erga S.p.A., Enel Distribuzione S.p.A., Enel Trade S.p.A., Enel.it S.p.A., Elettrogen S.p.A., Eurogen S.p.A., Interpower S.p.A., Director of WIND S.p.A., Elettroambiente S.p.A.	1,881,168	5,100
Claudio Poggi	Director of Enel, Enel Produzione S.p.A., Erga S.p.A. and WIND S.p.A., Chairman of the Board of SEI S.p.A.	309,256	26,089
Carlo Angelici	Director of Enel	120,000	25,189
Vittorio Grilli ⁽²⁾	Director of Enel and WIND	132,612	22,922
Franco Morganti	Director of Enel	120,000	25,789
Lorenzo Pellicoli ⁽³⁾	Director of Enel	80,000	19,771
Francesco Taranto	Director of Enel	29,677	9,519
Bruno De Leo	Chairman of the Board of Statutory Auditors of Enel	70,000	11,400
Gustavo Minervini	Statutory Auditor of Enel	50,000	8,700
Oreste Piemontese	Statutory Auditor of Enel	50,000	10,200

(1) Represents the combined annual compensation for posts held at Enel and certain of its subsidiaries.

(3) Until November 2000.

(4) Until August 2000.

There are no service contracts entered into by our directors with the Company or any of its subsidiaries providing for benefits upon termination of employment.

We do not disclose to our shareholders or otherwise make available public information as to the compensation of our executive officers.

The aggregate compensation we and our subsidiaries paid to all of our directors, executive officers and statutory auditors identified in this annual report, excluding pension, retirement or similar benefits, for the year ended December 31, 2000 was approximately Lit. 8.92 billion. The aggregate amount paid or accrued for pension, retirement or similar benefits for directors, statutory auditors and executive officers for the year ended December 31, 2000 was approximately Lit. 1.63 billion.

As of June 30, 2001, Francesco Tatò, in his capacity as *direttore generale*, held 1,232,000 options to purchase the same number of our ordinary shares. These options were assigned to him in 2000 and will be exercisable in 2003 and 2004 at an exercise price of €4.30. As of the same date, Mr. Tatò also held 5,270,000 options to purchase the same number of our ordinary shares. These options were assigned to

him in 2001 and, if vested, will be exercisable starting from 2002, as to 20%, and 2004, as to the remaining 80%. The exercise price of these options was set at €3.636. Please refer to “Item 10. Additional Information—Stock Option Plan” for a complete description of our stock option plan.

SHARE OWNERSHIP

The following table sets forth the number of our ordinary shares held by each of our directors and statutory auditors as of June 26, 2001:

<u>Name of Director and Statutory Auditor</u>	<u>Number of ordinary shares held as of June 26, 2001</u>
Francesco Tatò	1,000
Franco Morganti.....	1,575
Bruno De Leo	1,050
Gustavo Minervini.....	500
All other directors.....	0
Total:	4,125

EMPLOYEES

As of December 31, 2000, we had 72,647 employees (excluding those employed by WIND), of whom 689 held managerial positions. The following table shows the breakdown of employees in each of our principal segments excluding WIND as of December 31, 2000:

<u>Division</u>	<u>Number of Employees</u>	<u>Percentage of Total Number of Employees</u>
Distribution (*).....	44,205	60.8%
Generation	17,930	24.7
Transmission	3,001	4.1
Holding Company	1,675	2.3
Other areas (excluding WIND).....	<u>5,836</u>	<u>8.1</u>
Total Enel Group (excluding WIND).....	<u>72,647</u>	<u>100.0%</u>

(*) Including Enel Trade's employees

The data in the above table and elsewhere in this section “Employees” does not include employees of WIND. WIND had 4,992 employees as of December 31, 2000.

- In recent years, we have pursued a policy of workforce rationalization, primarily through attrition, which has resulted in a steady reduction in employment levels: the number of our employees declined by 23.9%, from 95,464 at December 31, 1996 to 72,647 employees at December 31, 2000; and
- The number of customers per employee has risen from 306 in 1996 to 460 in 2000.

Based on the current retirement system available to our employees, our management estimates that the following number of employees will retire during each of the periods shown:

	Estimated number of potential retirees
2001.....	Not less than 4,500
2002.....	Not less than 1,500
2003.....	Not less than 2,300
2004.....	Not less than 1,500
2005.....	Not less than 2,500

If Italy's current system of governmental retirement benefits changes significantly, we will consider adopting other voluntary measures to reduce employment levels. These measures may involve increased costs.

The increased use of automated, remote-controlled plants and of advanced information technology and other rationalization measures has improved our ability to conduct operations with fewer employees.

The table below shows our employment levels at the dates indicated:

	Year ended December 31,				
	1996	1997	1998	1999	2000
Employees (other than managers).....	94,050	87,912	84,096	77,768	71,958
Managers.....	<u>1,414</u>	<u>1,045</u>	<u>842</u>	<u>743</u>	<u>689</u>
Total.....	95,464	88,957	84,938	78,511	72,647

Most of our non-management employees are members of labor unions. The principal labor unions are the National Federation of Energy Workers, to which 33.4% of our employees belong, the Italian Electrical Companies Federation, to which 29.0% of our employees belong, and the Italian Union of Chemical, Electrical and Manufacturing Workers, to which 9.9% of our employees belong. Other employees are members of smaller labor unions, none of which includes more than 2.0% of our employees.

Typically, we and representatives of the three unions covering the largest number of our employees negotiate and enter into a single collective bargaining agreement every four years. Representatives of the smaller unions typically sign the same agreement at a later date. Under the collective bargaining agreement, wages and other compensation arrangements are negotiated every two years. A new collective bargaining agreement for all electric employees is presently being negotiated, which will also apply to independent producers and to municipally owned electric utilities.

Under the terms of the collective bargaining agreements currently in effect, employees covered by the agreement enjoy stability of employment and we may terminate their employment only when they reach retirement age or for cause. We expect similar terms to be included in future collective bargaining agreements. We believe that we can achieve our workforce rationalization objectives principally through attrition.

We believe that our relations with the unions are generally satisfactory. Our employees have the right under Italian law to strike, although the unions have guaranteed that in such event, a minimum level of service will be provided in each of the generation, transmission and distribution segments. We have entered into an agreement with our principal labor unions which regulates the exercise of our employees'

right to strike. As a consequence, strikes or other work stoppages have not significantly affected our operations in recent years.

Employee compensation in the past has been almost exclusively based on the seniority and the position held by each employee. In 1999, we introduced compensation based on performance for our senior and junior management, largely using a “management by objective” system with certain correction mechanisms to ensure that compensation does not significantly depart from market levels. This compensation method applied to approximately 35% of our management in 2000. For top managers, the variable component of compensation accounts for 24% of total compensation. Salary incentives based on sales have also been introduced for account managers of certain companies of our group.

Employee benefits

We sponsor retirement plans that pay pension benefits as required by Italian law and our collective bargaining agreements. The costs related with these plans are expensed as the benefits vest. In addition, our employees are eligible, upon termination, for severance pay under Italian law. We accrue a reserve for these employee termination liabilities, net of applicable advances, over the employees’ service periods.

Until the end of 1999, most of our employees were enrolled in the Electricity Fund managed by INPS, the state funded social security system, which covers pensions, disability pay and accidental death benefits. In 1999, the Italian Parliament enacted a law that required the government to terminate industry specific retirement funds, such as the Electricity Fund, and to merge them into the general retirement fund for Italian workers. The Electricity Fund was terminated on January 1, 2000 and covered workers have been enrolled in the general pension fund for Italian employees. We are required to make extraordinary contributions to the general pension fund in each of 2000, 2001 and 2002 to eliminate the deficit in the Electricity Fund. We expect that the net impact of this change on our cash flow over the three year period from 2000 to 2002 will be approximately Lit. 3,500 billion. This estimate includes the effect of lower payments we will make to the national pension system in respect of the family benefits program, following the January 2000 reduction of 3.72 percentage points in the rate on which our payments are based. For Italian GAAP purposes, we will expense the amounts paid in the years 2000-2002 proportionately over the twenty-year period between 2000 and 2019. However, for U.S. GAAP purposes, we will be required to expense these amounts in 2000-2002, during the year that the contribution are due. The difference between the treatment of these payments under Italian GAAP and U.S. GAAP will therefore have a significant negative effect on our U.S. GAAP results in each of those three years. See “Item 5. Operating and Financial Review and Prospects—U.S. GAAP Reconciliation.”

In addition, we make contributions to certain employee associations that provide medical and other employee benefits to both current and retired employees. Italian law provides a fund, known as the *cassa integrazione guadagni*, or wage supplementation fund, which guarantees part of the wages of workers in the industrial sector who are temporarily laid off or who are working reduced hours. As an entity controlled by the Italian government, under current law we are exempt from the requirement to contribute to the wage supplementation fund. We do not currently pay these or other unemployment contributions. WIND, however, is subject to the contribution requirement.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

Prior to our initial public offering in November 1999, the Treasury Ministry was our sole shareholder, having become such when we became a joint stock company in July 1992. Before that date,

we had been a public statutory body owned by the Italian government. The offering of a total of 3,848,802,000 ordinary shares in the form of ordinary shares and ADSs (each representing ten ordinary shares) was the second-largest in history at the time and generated gross proceeds of approximately €16.55 billion (Lit. 32,045 billion). As of June 1, 2001, the Treasury Ministry owned 8,194,328,250 of our ordinary shares, or 67.57% of the total number of outstanding ordinary shares. As of June 1, 2001, no other entity or individual held 2% or more of our outstanding ordinary shares.

In connection with our Italian initial public offering in November 1999, the Treasury Ministry granted purchasers of our shares the opportunity to participate in a bonus share program. Under this program, shareholders who purchased our shares in the initial public offering and held these shares for at least one year were to receive, starting from November 5, 2000, one additional share for each 20 retained shares. The Ministry of the Treasury has issued no official statement to the Company or the market generally regarding the delivery of bonus shares. However, based upon information reported in connection with our annual meeting in May 2001, we believe that the Treasury had assigned, as of such date, a total of 83,020,129 bonus shares under the bonus shares program.

The Treasury Ministry may sell additional shares at any time and has announced that it intends to sell additional shares. There are no minimum ownership or similar requirements under Italian law that would limit sales of additional shares by the Treasury Ministry. Additional sales of our ordinary shares may have a material adverse effect on the price of the ordinary shares and ADSs.

Within the context of the privatization procedures and regulations under Italian law, the Treasury Ministry may, as a significant shareholder, ask our board of directors to examine the possibility of dispositions, in whole or in part, of some entities we control. Our board would implement any such transaction solely to enhance value for all shareholders.

The Treasury Ministry has indicated that it intends to continue to participate in the nomination and election of our Board to protect its investment as a shareholder. Under the 1994 privatization law and a 2000 decree of the President of the Council of Ministers, the Treasury Ministry has special powers, regardless of the level of its shareholding in us, related to:

- The acquisition of our shares by third parties;
- Shareholders' agreements;
- Major corporate changes; and
- Appointment of one director and the chairman of our board of statutory auditors.

In addition, the privatization law provides that our by-laws may include:

- Special rules concerning appointments of directors in order to ensure that minority shareholders are represented; and
- Limitations on the maximum number of shares that a shareholder, or group of shareholders, other than the Treasury Ministry, may hold.

Certain provisions of our by-laws, as well as the special powers the Treasury Ministry retains, are described in more detail in "Item 10. Additional Information—By-laws."

As of June 15, 2001, 12,126,150,379 ordinary shares were outstanding. As of the same date, there were 2,835,209 ADSs (equivalent to 28,352,090 ordinary shares) held by 4 record holders (including the Depository Trust Company). Since certain of such ADS are held by nominees, the number of registered holders is not representative of the number of beneficial holders in the United States or elsewhere. At the annual general meeting in May 2001, our shareholders approved the re-denomination of our share capital in Euro. Following this re-denomination, which is scheduled to be effective on July 9, 2001, our share capital will consist of 6,063,075,189 ordinary shares, each with a par value of €1.00.

Since certain of the shares and ADSs were held by brokers or other nominees, the number of direct record holders in the United States may not be fully indicative of the number of direct beneficial owners in the United States or of where the direct beneficial owners of such shares are resident.

Related Party Transactions

As the entity primarily responsible for electricity generation, transmission and distribution in Italy, we provide service to many other state-owned entities. In the vast majority of situations, the rates charged are comparable to the tariffed rates charged to similar commercial organizations, with the primary exceptions being the state-owned railway company (Ferrovie dello Stato S.p.A.) and Acciai Speciali Terni S.p.A., which are entitled to favorable rates under Italian law. Total revenues from all state-owned companies were approximately 2% of our total revenues in 2000. Sales to Eni S.p.A., the Italian oil and gas company whose largest shareholder is the Treasury Ministry, with a shareholding of approximately 30%, and Ferrovie dello Stato S.p.A. make up the majority of sales to state-owned companies.

We purchase fuel for generation from Eni S.p.A. Total purchases from Eni S.p.A. were approximately 7% of our total operating expenses in 2000. Total purchases from state-owned companies accounted for approximately 10% of our total operating expenses in 2000. See note 23 to our consolidated financial statements.

No member of the board of directors or board of statutory auditors and no senior officer (including close members of any such person's families) nor any enterprise over which any such person is able to exercise a significant influence has had any interest in any transactions that are or were unusual in their nature or conditions or are or were material to the Company, and that were either effected since December 31, 1999 or that were effected during an earlier period and remain in any respect outstanding or unperformed. Except as described below, we have not provided any loans or guarantees to or for the benefit of any such person since December 31, 1999 or that remain outstanding or unperformed.

We generally provide loans to our employees, including executive officers, up to the amount of Lit. 100 million per employee. Under this policy, we have granted loans up to such amount to certain of our executive officers, including senior officers. See note 23 to our consolidated financial statements.

Item 8. *Financial Information*

CONSOLIDATED FINANCIAL STATEMENTS

Please refer to "Item 18. Financial Statements" and pages F-1 through F-64 of this annual report.

OTHER FINANCIAL INFORMATION

Legal Proceedings

We are defendants in a number of legal proceedings incidental to the generation, transmission and distribution of electricity. Because of the nature of these proceedings, we are not able to predict their ultimate outcomes, some of which may be unfavorable to us. However, we do not expect these proceedings, either individually or in the aggregate, to have a material adverse effect on our financial position or results of operations.

Our pending legal proceedings include various civil and environmental claims and disputes relating to the construction and operation of several power stations, transmission and distribution lines, and other matters that arise in the normal course of our business. We have established a reserve for litigation and other contingent liabilities where we consider it probable that a claim will be resolved unfavorably and where we can reasonably estimate the potential loss involved. This reserve, which also includes provisions for other contingencies and uncertainties related to our operations, is included in other non-current liabilities in the consolidated balance sheets in our consolidated financial statements, and amounted to Lit. 1,704 billion at December 31, 2000, of which Lit. 727 billion related to legal proceedings.

We have briefly summarized below the most significant proceedings. For a general discussion of legal proceedings, you should read note 22 to our consolidated financial statements.

Notwithstanding the fact that the relevant infrastructure is, in our opinion, in compliance with applicable laws, we are currently defendants in numerous pending proceedings relating to the electromagnetic fields created by our transmission and distribution lines and in some pending proceedings relating to electromagnetic energy emanating from substations. In most of the proceedings, the plaintiffs seek the relocation or removal of lines or substations that are near to inhabited or occupied residential or office buildings. In a limited number of proceedings, the plaintiffs also seek damages based on our alleged non-compliance with regulations setting maximum exposure levels or minimum distance requirements for lines and substations or on the alleged health effects of exposure to electromagnetic fields.

Alleged damage as a result of exposure to electromagnetic fields has also been the subject of certain criminal proceedings in which we are involved. In June 1999, the criminal court of Rimini fined us symbolic damages of Lit. 2 million in one proceeding and transferred the case to the civil court for the quantification of the physical damage to the individual plaintiff. We have appealed the decision.

We are also facing pending investigations regarding the alleged harmful effects of electromagnetic fields created by our transmission and distribution lines. The public prosecutor of Venice has initiated criminal investigations of two of our employees and the Chief Executive Officer of the *Gestore della Rete* based on an alleged connection between certain instances of diseases (some of which were fatal) that had occurred in the Veneto region and the electromagnetic fields created by our transmission and distribution lines in that region. The court supervising the investigation has rejected the public prosecutor's request to appoint an expert to evaluate the alleged causal connection between electromagnetic fields and the cases identified on a number of grounds, including the vagueness of the causal connection. In October 2000, the public prosecutor for the city of Turin initiated an investigation against a manager and the chief executive officer of Terna as well as the chairman of our board on similar grounds as those alleged in the Veneto investigation for alleged damages occurring in the province of Piedmont.

In both cases, the transmission and distribution lines in question are in compliance with all applicable laws. Moreover, we believe that certain of these proceedings have become moot as a result of Law February 22, 2001, no. 36, enacted in March 2001, which replaced previous legislation on electromagnetic fields and introduced measures for the restructuring of the Italian electricity grid. In any event, if the outcome of the above civil cases is unfavorable to us, our potential liability would be limited mainly to damages, to the extent plaintiffs satisfied their burden of proof by demonstrating a causal connection between electromagnetic fields and the alleged damage. You should read “Item 3. Key Information—Risk Factors—Our core electricity business and other businesses are subject to numerous environmental regulations that could significantly affect our results of operations and financial condition” and “Item 4. Information on the Company—Regulatory Matters—Environmental Matters—Electromagnetic Fields” for a more detailed discussion of electromagnetic fields.

In 1997, acting on a claim brought by an Italian consumers’ association, the public prosecutor of Rome commenced criminal proceedings against some of the current and former members of our board of directors and board of statutory auditors on the basis of an allegation that they had approved false financial statements. In doing so, the public prosecutor appointed and relied on the opinion of an independent expert who has alleged that:

- We set up a fund for charges that we incurred in connection with our interest in NERSA, a French company operating in the nuclear power generation business, instead of reflecting these charges as operating costs in our consolidated income statements; and
- Therefore, we distributed to our sole shareholder income which had not accrued.

We are contesting these allegations on the grounds that we complied with applicable Italian law and accounting principles in the transaction at issue. In particular, we complied with special Italian legislation on state-owned enterprises that required us to obtain:

- Experts’ reports on our accounting treatment of the relevant transaction; and
- The Treasury Ministry’s approval of that transaction.

Following a request made by the new public prosecutor who is now conducting this criminal investigation, the court supervising the investigation ordered a reassessment of the conclusions reached by the initial expert. We believe that the more recent reassessment made by a different independent expert substantially confirms our position.

Since 1997, several suppliers of equipment to our distribution division have brought civil actions against us claiming that we abused our market power in the Italian electricity distribution sector by imposing contractual terms and conditions on them. The plaintiffs have sought increases in the compensation paid to them under supply contracts with us. The aggregate value of these claims is approximately Lit. 390 billion. We are contesting the suppliers’ claims. The first three decisions rendered in these cases upheld our contention that civil courts lack jurisdiction to hear these cases. In 1995, the Antitrust Authority, prompted by similar claims filed by the same suppliers, issued an opinion in which it held that our conduct did not constitute an abuse of market power.

In April 2000, the Regional Authority of Puglia challenged before the Administrative Court of Lazio the decree of the President of the Italian Council of Ministers which identified our company as the prospective purchaser of Acquedotto Pugliese. The Regional Authority claims that the Government had no power to issue such a decree, as matters relating to regional water resources fall within the jurisdiction of regional authorities, and that the procedure resulting in our selection violated Italian law, since the

Regional Authority of Puglia had not been consulted on the matter. The Regional Authority of Puglia has also challenged the decree on the grounds that the government violated EU rules on state aids and the protection of competition, and, alternatively, asked the Administrative Court to submit its claim to the European Court of Justice. The Italian government is a party to all these proceedings and is actively contesting the claims. In July 2000, the Italian Constitutional Court rejected two claims brought by the Regional Authority of Puglia challenging the Government decree providing for the transformation of Acquedotto Pugliese into a joint stock company. The Regional Authority of Puglia has brought a new claim before the Constitutional Court challenging the government on this matter. We believe that the Regional Authority's claims are essentially without merit. No assurance can be given, however, as to the outcome of these proceedings or the ultimate effects of the claims on our acquisition of Acquedotto Pugliese. We have commenced negotiations with the Regional Authority relating to the purchase of Acquedotto Pugliese and these proceedings.

In July 2000, we, Montedison and the Italian government signed an agreement apportioning our joint liabilities of approximately Lit. 900 billion arising from the 1963 collapse of a hydroelectric dam in the Vajont area of northeast Italy, which devastated the area surrounding the dam. As the amounts we had already paid to victims were greater than our share of the apportioned total, we received approximately Lit. 117 billion under the agreement from Montedison.

In July 2000, we, France Telecom and Deutsche Telekom settled various outstanding legal proceedings arising from our claim in July 1999 that Deutsche Telekom had breached its non-competition obligations under the shareholders' agreement relating to WIND by signing a business combination agreement with Telecom Italia. Pursuant to the settlement agreement, we and France Telecom purchased the WIND shares held by Deutsche Telekom and raised our holdings in the joint venture to 56.63% and 43.37%, respectively.

In January 2001, certain participants in the bidding process for the sale of Elettrogen S.p.A., one of the three Gencos that we are required to sell by 2003, challenged before the Administrative Court of Lazio the governmental decree placing certain limitations on the ownership by public entities of the Gencos' share capital and requested the suspension of the sale procedures of Elettrogen. The request was rejected by the court.

In March 2001, we challenged before the Administrative Court of Lazio the decision of the Antitrust Authority to condition the is authorization of our acquisition of Infostrada S.p.A. on our disposal of an additional 5,500 MW of generation capacity. The Court is expected to hear the case in October 2001. You should read "Item 4. Information on the Company—Business—Telecommunications—Infostrada—The Acquisition".

Dividend Policy

Our shareholders are entitled to receive interim or annual dividends that our board recommends and, in the case of annual dividends, that our shareholders approve. The following table shows our dividends per share based on the 12,126,150,379 ordinary shares outstanding in each of the years indicated. Prior to our initial public offering in November 1999, the Treasury Ministry was our sole shareholder.

	Year ended December 31,				
	1996	1997	1998	1999	2000
Dividends per ordinary share (in lire)	99.0	76.0	162.0	232.0	252.0
Dividends per ordinary share (in U.S. cents)(1)	5.8	4.3	8.6	11.3	12.2

- (1) We have translated the historical dividend amounts into U.S. dollars using the noon buying rate or effective noon buying rate for lire in effect on the respective payment dates. You should read “Item 3. Key Information—Exchange Rates” for a more detailed discussion of historical exchange rates for lire. The effective noon buying rate for lire, which is based on the noon buying rate for Euro, may differ from the rate that may be used by the Depositary for the ADSs in order to convert lire into U.S. dollars for purposes of making payments to holders of ADSs.

At our shareholder’s meeting on September 3, 1999, the Treasury Ministry, at that time our sole shareholder, approved the distribution of an extraordinary dividend of Lit. 4,422 billion that was paid to the Treasury Ministry in October 1999.

The dividends that we declared during the period prior to our initial public offering in November 1999 reflected our status as a company wholly owned by the Italian government. You should not consider our dividend pay-out ratio, or amount of dividends paid as a percentage of our earnings, during this period as indicative of our future dividend pay-out ratio.

At our annual shareholders’ meeting on May 26, 2000, the shareholders approved our board of directors’ proposal to pay an aggregate dividend of approximately Lit. 2,813 billion, or Lit. 232 per ordinary share, in respect of the fiscal year ended December 31, 1999. The amount of the aggregate dividend was equal to approximately 62% of our consolidated net income for the year and was paid on June 22, 2000 to holders of record as of June 19, 2000.

At our annual shareholders’ meeting on May 25, 2001, the shareholders approved our board of directors’ proposal to pay an aggregate dividend of approximately Lit. 3,056 billion, or Lit. 252 per ordinary share, in respect of the fiscal year ended December 31, 2000. The amount of the aggregate dividend was equal to approximately 72% of our consolidated net income for the year and was paid on June 21, 2001 to holders of record as of June 18, 2000.

Italian law allows us to pay dividends only out of our statutory retained earnings, plus our distributable reserves and statutory net income for the current year, net of the amount to be allocated to the legal reserve in the subsequent year. Italian law requires companies to contribute 5% of their net income each year to the legal reserve until the aggregate amount of this reserve is equal to 20% of the aggregate par value of their issued and outstanding share capital. As the aggregate amount of our legal reserve was equal to such aggregate par value, we did not allocate any of our 2000 net income to such a reserve. Our board will recommend the payment of any future dividends in light of conditions then existing, including:

- Our financial performance;
- Cash and capital requirements;
- Any restrictions in financing agreements;
- Prevailing business conditions; and
- Other factors, including the pay-out ratios of other European electricity companies.

Any cash dividends we declare on or before July 8, 2001, the date on which our share capital will be re-denominated into Euro, will be declared and paid in lire. From July 9, 2001, we will declare and pay any dividends in Euro. We will pay dividends on ordinary shares represented by ADSs to the Depositary. The Depositary will convert the dividends into U.S. dollars at the prevailing rate of exchange, net of conversion expenses of the Depositary and any applicable Italian withholding tax. The amount of dividends received by holders of ADSs in U.S. dollars may be affected by fluctuations in exchange rates. You should read “Item 3. Key Information—Exchange Rates” and “Item 3. Key Information—Risk Factors—The dollar value of dividends we pay in respect of our ordinary shares and ADSs will be affected by the Euro/dollar exchange rate” for a more detailed discussion of the risks of Euro/dollar exchange rate fluctuations for holders of ADSs.

SIGNIFICANT CHANGES

On March 29, 2001, Enel Investment Holding BV, a Dutch company fully owned by us, acquired from Mannesman Investment BV, an indirect, wholly owned subsidiary of Vodafone Group plc, 100% of the capital stock of Infostrada, one of Italy’s leading providers of fixed-line telecommunications services and the owner and operator of one of Italy’s leading Internet portals. The purchase price of the shares, amounting to €7,250 million (Lit. 14,038 billion), was paid in full on the same date. As provided for in the share purchase agreement, Mannesman Investment BV was also repaid by us €132 million (Lit. 256 billion) representing a receivable against Infostrada that Mannesman Investment BV had previously renounced in favor of Infostrada. In addition, on the same date, Enel Investment Holding BV paid Vodafone €821.2 million (Lit. 1,590 billion) due to Vodafone by Infostrada and became a creditor of Infostrada for the same amount.

The Acquisition of Infostrada was authorized by the European Commission on January 19, 2001, while the authorization by the Antitrust Authority was issued on February 28, 2001. The authorization of the Antitrust Authority is subject to our disposal of 5,500 MW of generation capacity. Please refer to “Item 4. Information on the Company—Business—Telecommunications—Infostrada—The Acquisition” for a more detailed description of the transaction.

In the first half of 2001, we also finalized the following transactions:

- On March 29, 2001, we reached an agreement with ACEA (the utility company of the Municipality of Rome) for the sale of the electricity distribution network of the municipalities of Rome and Formello, serving approximately 709,000 customers, for a total consideration of Lit. 1,100 billion. You should read “Item 4. Information on the Company—The Enel Group—Consolidation of electricity distribution networks” for further information on this transaction.
- In June 2001, we sold to the Regional Authority of Valle d’Aosta our hydroelectric plants in that region, having an aggregate gross installed capacity of 781 MW, together with 49% of electricity distributor Deval S.p.A., for a total consideration of Lit. 1, 650 billion.
- In June 2001, Enel Investment Holding BV issued, under our medium term note program, a €2 billion bond guaranteed by Enel S.p.A. in order to refinance a portion of the debt we incurred in connection with the acquisition of Infostrada. The bond has an annual coupon of 5% and matures in 2003.

Item 9. The Offer and Listing

MARKETS AND PRICE RANGE OF ADSs and ORDINARY SHARES

The principal trading market for our ordinary shares is the *Mercato Telematico Azionario* or Telematico, the Italian automated screen-based trading system managed by the *Borsa Italiana S.p.A.* Our shares are traded on Telematico under the symbol “ENEL”. American Depositary Shares or ADSs (each representing 10 ordinary shares) are listed on the New York Stock Exchange, where they are traded under the symbol “EN”. Citibank, N.A. is our depositary for purposes of issuing the American Depositary Receipts evidencing the ADSs. Trading in our ordinary shares on the Telematico and in our ADSs on the New York Stock Exchange commenced on November 2, 1999.

The following table sets forth, for the periods indicated, the reported high and low sales prices of the ADSs on the New York Stock Exchange.

		ADSs	
		High	Low
		(in dollars)	
1999			
	Fourth Quarter (starting Nov. 2).....	45.000	41.125
2000			
	First Quarter.....	46.000	38.625
	Second Quarter.....	45.375	40.750
	Third Quarter.....	44.6875	36.625
	Fourth Quarter.....	40.094	35.047
2001			
	First Quarter.....	39.094	30.047
	Second Quarter (through June 25).....	34.719	30.063
December 2000 – May 2001			
	December 2000.....	39.547	35.047
	January 2001.....	39.094	36.203
	February 2001.....	37.547	33.750
	March 2001.....	35.250	30.047
	April 2001.....	34.719	32.203
	May 2001.....	33.500	31.000

The following table sets forth, for the periods indicated, the reported high and low “official” sales prices for the ordinary shares on Telematico. Beginning on January 1, 1999, the prices of all publicly traded stocks in Italy have been quoted in Euro.

		Ordinary Shares	
		High	Low
		(in Euro)	
1999			
	Fourth Quarter (starting Nov. 2).....	4.40	4.09
2000			
	First Quarter.....	4.71	3.78
	Second Quarter.....	4.82	4.36
	Third Quarter.....	4.76	4.24
	Fourth Quarter.....	4.57	3.97
2001			
	First Quarter	4.00	3.41
	Second Quarter (through June 25).....	3.89	3.58
December 2000 – May 2001			
	December 2000.....	4.31	3.97
	January 2001.....	4.09	3.87
	February 2001.....	3.97	3.70
	March 2001.....	3.80	3.41
	April 2001.....	3.87	3.67
	May 2001.....	3.75	3.52

Our ordinary shares are among the constituents of the MIB 30 Index, the primary Italian stock market index.

As of June 29, 2001, 12,126,150,379 ordinary shares were outstanding. At the annual meeting held on May 2001, our shareholders resolved to re-denominate our share capital in Euro and approved a one-for-two reverse stock split to come into effect on July 9, 2001. Starting from that date, our share capital will consist of 6,063,075,189 ordinary shares, each with a par value of €1.00, and each ADS will represent 5 ordinary shares. In accordance with Italian law, in connection with the re-denomination, our share capital will be rounded down by approximately Lit. 386 million, which we will allocate to a special statutory reserve.

Item 10. Additional Information

STOCK OPTION PLAN

In March 2000, our board of directors approved an executive stock option incentive plan, which we refer to as the Plan, for the grant of options to certain of the Group's senior managers (as identified by the board of directors at the time of the grant).

The Plan distinguishes between options that, once vested, may be exercised after the first anniversary of the grant date, or One Year Options, and those that, once vested, may be exercised only after the third anniversary of the grant date, or Three Year Options. Of the Options granted to each individual participant in any single year, 20% are One Year Options and the remaining 80% are Three Year Options.

Options vest if the average reference price of our shares on Telematico over the last three months of the year of the grant is higher than a target price determined by the board of directors at the time of the grant. The board sets the Target Price with reference to securities analysts' estimates of the future price

of our shares. If the Target Price is not met in a given year, all of the One Year Options and 30% of the Three Year Options granted in that year do not vest and expire. However, the remaining 70% of the Three Year Options granted in the year (56% of the Options) may still vest if (i) the price of our shares on Telematico during the year of the grant outperforms a specified reference index over the same period and (ii) the actual growth in value of our business (“AGV”) during the year of the grant (as determined using a proprietary formula) exceeds the expected growth for that year, as determined by the board of directors at the time of the grant. If these conditions are not met, the remaining 70% of Three Year Options may also vest if the average reference price of our shares on Telematico over the last three months of the second year following the grant is higher than the Target Price for the year of the grant, as adjusted for the expected variation of the price of our shares in the following two years, as determined by the board of directors each year.

One Year Options, if vested, may be exercised from the first to the fourth year following the grant. Three Year Options, if vested, may be exercised in the third and fourth year following the grant. In all cases, the Options may only be exercised within fifteen trading days following the shareholders’ approval of the financial statements for the preceding fiscal year. The strike price of the Options is set by the board of directors at a date no later than the date of the grant and cannot be lower than the average reference price of our shares on Telematico during the month preceding the grant. Options are not transferable, except in certain cases.

In March 2000, our board of directors granted an aggregate of 19,690,000 Options (in respect of an equal number of ordinary shares) to 144 of our senior officers, including our Chief Executive Officer, under the Plan. The number of Options granted to participating managers has been determined pursuant to a formula based on the participant’s gross salary for the year in question and the value of the Three Year Options, calculated according to market value indications supplied by primary financial institutions. The Target Price of our stock in respect of the Options granted in 2000 was set at €4.70. Since such Target Price was not met in 2000, all One Year Options and 30% of the Three Year Options did not vest and expired. However, in the same year, (i) the price of our shares on Telematico outperformed the specified reference index and (ii) the AGV exceeded the expected rate of growth, as determined by the board of directors at the time of the grant. As a result, 70% of the Three Year Options (equal to 11,026,400 options) vested and will become exercisable in the periods provided for by the Plan. The strike price of Options granted in 2000 was set at €4.30 per share.

In April 2001, our board of directors granted an aggregate of 68,548,100 Options (in respect of an equal number of ordinary shares) to 381 of our senior officers, including our Chief Executive Officer, under the Plan. The number of Options granted to participating managers has been determined pursuant to a formula based on the participant’s gross salary for the year in question and the value of the Three Year Options, calculated according to market value indications supplied by primary financial institutions. The Target Price of our stock in respect of the Options granted in 2001 was set at €4.40. The strike price of Options granted in 2001 was set at €3.636 per share.

As authorized by our shareholders in December 1999, on April 9, 2001, our board of directors resolved: (i) to increase our share capital by an amount not to exceed Lit. 11,026,400,000 through the issuance of a maximum of 11,026,400 new ordinary shares with a par value of Lit. 1,000 each, at a price of €4.30, reserved for issuance upon the exercise of Options granted under the terms of the Plan to our executives selected in March 2000 and (ii) to increase our share capital by an amount not to exceed Lit. 68,548,100,000 through the issuance a maximum of 68,548,100 new ordinary shares with a par value of Lit. 1,000 each, at a price of €3.636, reserved for issuance upon the exercise of Options granted under the terms of the Plan to our executives selected in April 2001.

In May 2001, our shareholders authorized the board of directors to increase our outstanding share capital by an amount not to exceed €60,630,750 in order to permit the issuance (in one or more tranches over a five-year period ending in May 2006) of a maximum of 60,630,750 new ordinary shares to be reserved for issuance upon exercise of options granted to members of our senior management selected by our board under the terms of executive stock option plans approved by our board from time to time. At the same time, our shareholders revoked the authorization granted to our board of directors in December 1999 for the same purpose, with regard to capital increases not yet resolved under such authorization.

BY-LAWS

The following is a summary of certain information concerning the Company's shares and by-laws (*Statuto*) and of Italian law applicable to companies whose shares are listed in a regulated market in the European Union, as in effect at the date of this annual report. The summary contains all the information that the Company considers to be material regarding the shares but does not purport to be complete and is qualified in its entirety by reference to the by-laws or Italian law, as the case may be.

General

The issued and outstanding share capital of the Company consists of 12,126,150,379 ordinary shares, each with a par value of 1,000 lire. In May 2001, the Company's shareholders approved the redenomination of our share capital in Euro and a one-for-two reverse stock split, effective July 9, 2001. As a result, starting from that date, the share capital of the Company will consist of 6,063,075,189 ordinary shares, each with a par value of €1.00. In accordance with Italian law, in connection with the redenomination, our share capital will be rounded down by approximately Lit. 386 million, which we will allocate to a special statutory reserve. All of the issued and outstanding shares are fully paid, non-assessable and in registered form.

The Company, whose registered office is in Rome, Italy, at Viale Regina Margherita n. 137, is registered with the Italian Companies' Register held by the Chamber of Commerce of Rome at n. 00811720580.

As set forth in Article 4 of the by-laws, the Company's corporate purpose is to acquire and manage equity holdings in Italian and foreign companies, and to provide such companies with strategic guidelines regarding their industrial organization and business activities. Through affiliates or subsidiaries, the Company operates principally in (i) the electricity industry, including the activities of production, importation and exportation, distribution and sale, as well as transmission within the limits of existing legislation; (ii) in the energy industry in general, including the fuel sector, and the field of environmental protection, as well as in the water sector; (iii) the communication, telematics and information-technology industries and those of multimedia and interactive services; and (iv) the network-based services sector (electricity, water, gas, district heating, telecommunications) and those which, in any case, provide metropolitan services locally. The Company is generally authorized to take any actions necessary or useful to achieve its corporate purpose.

Authorization of Shares

The board of directors of the Company is authorized, for a period of five years from the shareholders' resolution of May 25, 2001, to increase the share capital by a maximum total amount of €60,630,750 in order to permit the issuance (in one or more tranches over a five-year period ending in May 2006) of a maximum of 60,630,750 new ordinary shares under the terms of the Company's executive stock option incentive plan. At the same time, our shareholders revoked the authorization

granted to our board of directors in December 1999 for the same purpose, with regard to capital increases not yet approved under such authorization.

Under the 1999 authorization, on April 9, 2001, the board of directors resolved: (i) to increase the share capital by payment by a maximum amount of Lit. 11,026,400,000 through the issue of a maximum number of 11,026,400 new ordinary shares with a par value of Lit. 1,000 each, at a price of €4.30, reserved for subscription to the executives of the Company and/or subsidiaries thereof, who were selected on March 3, 2000 to participate in the executive stock option incentive plan for 2000; (ii) to increase the share capital by payment by a maximum amount of Lit. 68,548,100,000 through the issue of a maximum number of 68,548,100 new ordinary shares with a par value of Lit. 1,000 each, at a price of €3.636, reserved for subscription to the executives of the Company and/or its subsidiaries thereof, who were selected on April 9, 2001 to participate in the executive stock option incentive plan for 2001. Following the re-denomination in Euro of the Company's share capital and the one-for-two reverse stock split, effective July 9, 2001, the capital increases approved by the board of directors on April 9, 2001 will be expressed in Euro and the strike price will be €8.60 and €7.272, respectively.

Form and Transfer of Shares

Pursuant to Legislative Decree No. 58 of February 24, 1998 ("Decree No. 58"), Legislative Decree No. 213 of June 24, 1998 ("Decree No. 213") and implementing Regulation No. 11768 of December 23, 1998 ("Regulation No. 11768"), as amended in April 2000 and April 2001, of CONSOB, since January 1, 1999, it is no longer possible for a shareholder to obtain the physical delivery of share certificates representing shares of Italian listed companies. Upon full implementation, shares of Italian listed companies will no longer be represented by paper certificates and the transfer and exchange of shares will take place exclusively through an electronic book-entry system. All shares must, accordingly, be deposited by their owners with an intermediary (each an "Intermediary"), which is defined by Regulation No. 11768 as:

- an Italian or EU bank;
- a non-EU bank authorized by the Bank of Italy to operate in the Italian market;
- *Società di Intermediazione Mobiliare*, or SIM;
- an EU investment company;
- a non-EU investment company authorized by CONSOB to provide investment services in Italy;
- an Italian asset management company;
- a stock broker;
- the company which has issued the shares;
- the controlling shareholder of the company which has issued the shares;
- the Bank of Italy;
- an EU or non-EU entity operating a centralized clearing system;

- a financial intermediary operating a clearing system governed by art. 69 (2) and 79 of Decree No. 58;
- a financial intermediary registered on the list kept by the Bank of Italy under art. 107 of Legislative Decree No. 385 of September 1, 1993;
- the Italian Post Office (Poste Italiane S.p.A.); or
- Cassa Depositi e Prestiti (a state-owned entity mainly responsible for extending loans to public administration bodies).

The Intermediary will in turn deposit the shares with Monte Titoli or with another company authorized by CONSOB to operate a centralized clearing system.

To transfer shares under the system introduced by Decree No. 213, owners of shares are required to give instructions to their Intermediaries. If the transferee is a client of the transferor's Intermediary, the Intermediary will simply transfer the shares from the transferor's account to the account of the transferee. If, however, the transferee is a client of another Intermediary, the transferor's Intermediary will instruct the company operating a centralized clearing system to transfer the shares to the account of the transferee's Intermediary, which will then record the shares in the transferee's account.

Each Intermediary maintains a custody account for each of its clients setting out the financial instruments of such client and keeps a record of all transfers, payment of dividends, exercise of rights attributable to such instruments, charges or other encumbrances on the instruments. The account holder or any other eligible party (for example, in the case of a pledge over the financial instrument, the pledge holder) may submit a request to the Intermediary for the issue of a certified statement of account. The request must indicate the quantity of the financial instruments in respect of which the statement is requested, the rights which the applicant intends to exercise (and, in the case of rights exercisable at shareholders' meetings, the date and nature of the meeting) and the duration in respect of which the certificate's validity is required. Within five days from the receipt of such request, the Intermediary shall issue a certified statement of account that constitutes evidence of the account holder's ownership of the financial instruments indicated. Once a certificate has been issued, the Intermediary may not effect any transfer of the corresponding securities until the certificate expires or is returned.

The new book-entry system commenced operations on October 5, 1998, when Monte Titoli cancelled all certificates representing listed financial instruments in its possession and returned them to the issuing companies. At the same time, Monte Titoli registered the shares in accounts held under the name of the depositing Intermediaries and gave them and the issuing companies notice of the registration. The Intermediaries, in turn, registered the shares in the shareholders' accounts. Since January 1, 1999, shareholders of listed companies have been allowed to exercise their rights only after they have deposited their share certificates with an Intermediary and authorized it to deposit the shares with a company operating a centralized clearing system.

As a result of the foregoing, it is not possible for a shareholder to obtain physical delivery of share certificates representing our ordinary shares. Instead, transfers of shares are possible only using the procedures described above.

Limitations on shareholdings

Our by-laws provide that no shareholder, other than the Italian government, may own ordinary shares representing 3% or more of our voting share capital. The 3% limit may be cancelled only after a

three-year period from its introduction has expired. This limit does not apply in the event that it is exceeded as a result of certain types of tender offers as provided under Italian law.

The limitation on shareholding is calculated taking into account, among other things, shares owned by:

- Controlling entities and directly or indirectly controlled entities, as well as entities controlled by the same controlling entity; and
- Affiliated personal entities, including spouses and other closely related personal relatives.

Our by-laws restrict the ability of any entity to exercise any voting rights attributable to ordinary shares held or controlled by that entity representing more than 3% of our voting share capital. This restriction does not apply to any shareholdings held by the Italian state, other public entities, or other entities controlled by the state or other public entities. The voting rights of each entity to whom this limit on shareholding applies are reduced correspondingly. In the event that ordinary shares held or controlled in excess of the 3% threshold are voted, any shareholders' resolution adopted pursuant to this vote may be challenged if the majority required to approve this resolution would not have been reached without the vote of ordinary shares exceeding this threshold. Ordinary shares not entitled to be voted are nevertheless counted for purposes of determining the quorum at a shareholders' meeting. Further limitations on shareholding result from the special powers of the Treasury Ministry.

Special powers of the Treasury Ministry

The Italian privatization law and our by-laws confer upon the Italian government, acting through the Treasury Ministry, certain special powers with respect to our business and actions by our shareholders. These powers apply regardless of the Treasury Ministry's shareholding in us. The government may review the scope and duration of the Treasury Ministry's special powers starting from September 2004. In this review, the government will take into account, among other factors, the liberalization level achieved by that time in the European energy sector. The Treasury Ministry exercises these special powers after consultation with, and with the agreement of, the Industry Ministry.

Our by-laws reflect the following special powers of the Treasury Ministry:

Approval of material acquisitions of shares. The Treasury Ministry must approve or disapprove the acquisition of material interests in our share capital. Our by-laws define material interests as interests representing 3% or more of our voting share capital (including ordinary shares held in the form of American Depositary Shares). This limit is based on the limit currently set by the Treasury Ministry under the privatization law. If the Treasury Ministry changes this limit, we will amend our by-laws accordingly. Our board of directors must file a notice with the Treasury Ministry at the time an acquiror of a material interest files a request for registration with the register of shareholders. Approval or disapproval by the Treasury Ministry must be given within 60 days from the date of this notice. Until the approval is granted, or in any case after the expiration of the 60-day period without the approval having been granted, the purchaser may not exercise any rights, including voting rights, other than economic rights pertaining to the ordinary shares representing the material interest. In the event the approval is denied by the Treasury Ministry or the 60-day period has expired without the approval having been granted, the purchaser must sell the ordinary shares representing the material interest within one year and may not exercise any rights, including voting rights, other than economic rights pertaining to these ordinary shares, in the interim. In the event of failure to comply with this requirement, the Treasury Ministry may petition the courts to order the forced sale of the ordinary shares representing the material interest. Holders and beneficial owners of ADSs are also subject to the 3% limit.

Approval of material shareholders' agreements. The Treasury Ministry has the authority to approve or disapprove material shareholders' agreements or other arrangements, which are currently defined in our by-laws as shareholders' agreements or other arrangements relating to 5% or more of our voting share capital. However, the Treasury Ministry may lower this limit in the future. The approval or the disapproval must be given within 60 days from the date of the notice to be provided to the Treasury Ministry by CONSOB following the notifications of these material shareholders' agreements or other arrangements to CONSOB. Until the approval is granted, or in any case after the expiration of the 60-day period without the approval having been granted, shareholders that are parties to the agreement or other arrangement may not exercise any rights, including voting rights, other than economic rights pertaining to the ordinary shares subject to the agreement or other arrangement. In the event the approval is denied by the Treasury Ministry or the 60-day period has expired without the approval having been granted, the agreement is deemed ineffective. If the conduct of shareholders during a shareholders' meeting nevertheless supports an inference that the shareholders are acting pursuant to the terms of such a shareholders' agreement or other arrangement, then any resolutions adopted at that meeting that would not have been adopted but for the vote of these shareholders may be challenged.

Members of our Board of Directors and Board of Statutory Auditors. The Treasury Ministry has the power to appoint one member of our board of directors and the chairman of our Board of Statutory Auditors in addition to the members elected by the Treasury Ministry as a shareholder.

Veto power over material changes. The Treasury Ministry may veto resolutions to dissolve us, cause a significant transfer of our business, merge or demerge, transfer our registered office outside of Italy, change our corporate purpose or eliminate or modify any of the Treasury Ministry's special powers.

The special powers of the Treasury Ministry reflected in our by-laws have also been introduced into the by-laws of Enel Produzione, Terna and Enel Distribuzione.

Dividend Rights

The payment by the Company of any annual dividend is proposed by the board of directors and is subject to the approval of the shareholders at the annual shareholders' meeting. Before dividends may be paid out of the Company's unconsolidated net income in any year, an amount equal to 5% of such net income must be allocated to the Company's legal reserve until such reserve is at least equal to one-fifth of the par value of the Company's issued share capital. As of December 31, 2000, the amount of our legal reserve was equal to such aggregate par value. If the Company's capital is reduced as a result of accumulated losses, dividends may not be paid until the capital is reconstituted or reduced by the amount of such losses. The board of directors may authorize the distribution of interim dividends, subject to certain statutory limitations.

Dividends are payable to those persons who hold the shares through an Intermediary on the dividend payment date declared by the shareholders' meeting. Dividends not collected within five years from the dividend payment date are forfeited to the benefit of the Company. Payments in respect of dividends are distributed through Monte Titoli on behalf of each shareholder by the Intermediary with which the shareholder has deposited its shares. Holders of ADSs will be entitled to receive payments in respect of dividends on the underlying shares through Citibank N.A., as ADR depository, in accordance with the deposit agreement relating to the ADRs. See "Item 8. Financial Information—Other Financial Information—Dividend Policy."

Voting Rights

Shareholders are entitled to one vote per share, although a slate voting system applies in case of appointment of members of the board of directors and of the board of statutory auditors. See “—Minority Shareholders’ Rights”.

Proxy solicitation is possible. Solicitation can be conducted only by certain professional investment and financial intermediaries, as well as certain companies whose sole purpose is to carry out proxy solicitation, on behalf of a qualified soliciting shareholder. With respect to Enel, a qualified soliciting shareholder has been defined by CONSOB as one or more shareholders who own and have owned at least 0.5% of the voting capital of the Company for more than six months and who have been registered with the Company as having been shareholders of at least 0.5% of the voting capital of the Company for the same period of time. CONSOB periodically reconsiders the threshold to qualify as a qualified soliciting shareholder of Enel and could raise such threshold to up to 1% of the voting capital of the Company.

Proxies may be collected by a shareholders’ association provided that such association has been formed by notarized private agreement, does not carry out business activities and is made up of at least 50 individuals, each of whom owns not more than 0.1% of the Company’s voting capital. Members of the shareholders’ association may, but are not obliged to, grant proxies to the legal representative of the association, and proxies may also be granted in respect of only certain of the matters to be discussed at the relevant shareholders’ meeting. The association may vote in different manners in compliance with the instructions expressed by each member who has granted a proxy to the association.

As a registered shareholder and ADR depositary, Citibank N.A. or its nominee is entitled to vote the shares underlying the ADSs. The Deposit Agreement requires Citibank (or its nominee) to accept voting instructions from owners of ADSs and to execute such instructions to the extent permitted by law.

Board of Directors

Pursuant to the Company’s by-laws, the Company’s board of directors must consist of no less than three and no more than nine members. The board of directors is elected at a shareholders’ meeting for a term of up to three years. Members are eligible for re-election. As to the election of directors, see “—Minority Shareholders’ Rights.”

In accordance with the by-laws, the board of directors is responsible for the management of our business. It has the power to take all actions consistent with the corporate purpose described in the by-laws, except for the actions that by applicable law or the by-laws may only be taken by our shareholders.

The chairman and chief executive officer are our legal representatives. The chief executive officer generally has the power to represent us within the scope of the functions delegated to him. For specific actions or categories of actions, the power to represent us can be delegated by the holder of such power to one of our employees or to third parties.

The quorum for board meetings is a majority of the members in place. Resolutions are adopted by a majority of votes of those present. A board meeting may be called by the chairman on his or her own initiative, must be called upon a request of the majority of the board’s members or upon request of the board of statutory auditors (or at least two of its members) and also must be called upon a request for a meeting for specific purposes of two directors (or one director when the board is composed of three members).

The board has the power to delegate certain of its powers to one of its members, and determines the powers and the functions delegated to such person. Under applicable law and our by-laws, the board may not delegate certain of its responsibilities, such as the approval of the financial statements or proposals of increases or reductions of our capital.

Under Italian law, directors having a conflicting interest with the company regarding a proposed resolution must inform the other directors about the conflict and abstain from voting on the resolution. Resolutions adopted in breach of this rule may be challenged by dissenting or absent directors or the statutory auditors if the required majority would not have been attained without the vote of the director having a conflict of interests, and conflicted directors may be held liable for damages to the Company resulting from a resolution adopted in breach of this rule (see “Minority Shareholders’ Rights”).

Under Italian law, directors may be removed from office at any time by the vote of shareholders at an ordinary shareholders’ meeting although, if removed in circumstances where there was no just cause, such directors may have a claim for indemnification against the Company. Directors may resign at any time by written notice to the board of directors and to the chairman of the board of statutory auditors. The board of directors must appoint substitute directors to fill vacancies arising from removals or resignations, subject to the approval of the board of statutory auditors, to serve until the next shareholders’ meeting, except for the director appointed by the Treasury Ministry, whose vacancy must be filled in by a substitute director also appointed by the Treasury Ministry (see “Special powers of the Treasury Ministry-Members of our Board of Directors and Board of Statutory Auditors”). If at any time a majority of the then current members of the board of directors resign or otherwise cease to be directors, the entire board of directors will be considered to have lapsed and the remaining members of the board of directors (or the board of statutory auditors if all the members of the board of directors have resigned or ceased to be directors) must promptly call an ordinary shareholders’ meeting to appoint a new board of directors.

The compensation of directors is determined by shareholders at ordinary shareholders’ meetings. The board of directors determines, upon the proposal of the board compensation committee, the compensation of the chief executive officer and the directors to which certain powers have been delegated. Directors are entitled to reimbursement for expenses reasonably incurred in connection with their functions.

Statutory Auditors

Under Italian law, in addition to electing the board of directors, the Company’s shareholders elect a board of statutory auditors (*Collegio Sindacale*). At ordinary shareholders’ meetings of the Company, the statutory auditors are elected for a term of three years, may be re-elected for successive terms and may be removed only for cause and with the approval of a competent court. Each member of the board of statutory auditors must provide certain evidence that he is in good standing and meets certain professional standards.

Pursuant to certain provisions of Decree No. 58, applicable from July 1, 1998 to Italian companies whose shares are listed on regulated markets of EU Member States, the by-laws of listed companies must:

- specify the number of statutory auditors (not fewer than three) and alternate members (not fewer than two);
- regulate the appointment of the chairman of the board of statutory auditors;

- limit the number of mandates that the statutory auditors may have in other companies; and
- include clauses ensuring that minority shareholders may elect one statutory auditor (or two if the board is composed of more than three members).

The Company's by-laws currently provide that the board of statutory auditors shall consist of three statutory auditors and two alternate statutory auditors (who are automatically substituted for a statutory auditor who resigns or is otherwise unable to serve). The by-laws also provide that the statutory auditors may not hold the position of statutory auditor in five or more other listed companies (not counting subsidiaries of the Company). As to the election of statutory auditors please refer to "—Minority Shareholders' Rights."

Decree No. 58 provides further that the board of statutory auditors will be required to verify that the Company (i) complies with applicable law and its by-laws, (ii) respects the principles of correct administration, (iii) maintains adequate organizational structure, internal controls and administrative and accounting systems and (iv) adequately instructs its subsidiaries to transmit to the Company information relevant to the disclosure obligations of the Company.

The Company's board of statutory auditors is required to meet at least once each quarter. In addition, the statutory auditors of the Company must be present at meetings of the Company's board of directors and shareholders' meetings and at meetings of the Company's executive committee, if any. The statutory auditors may decide to call a meeting of the shareholders, the board of directors or the executive committee, ask the directors for information on the management of the Company, carry out inspections and verifications at the Company and exchange information with the Company's external auditors. The board of directors must report to the statutory auditors at least quarterly on its activities and on the main transactions carried out by the Company. Any shareholder may submit a complaint to the board of statutory auditors regarding facts that such shareholder believes should be subject to scrutiny by the board of statutory auditors, which must take any complaint into account in its report to the shareholders' meeting. If shareholders collectively representing 2% of the Company's share capital submit such a complaint, the board of statutory auditors must promptly undertake an investigation and present its findings and any recommendations to a shareholders' meeting (which must be convened immediately if the complaint appears to have a reasonable basis and there is an urgent need to take action). The board of statutory auditors may report to the competent court serious breaches of the duties of the directors. The Company's board of statutory auditors is also required to notify CONSOB without delay of any irregularities found during its review activities. CONSOB may report to the competent court serious breaches of the duties of the statutory auditors of a listed company.

External Auditors

Decree No. 58 requires companies whose shares are listed on regulated markets of EU Member States to appoint a firm of external auditors that shall verify (i) during the fiscal year, that the company's accounting records are correctly kept and accurately reflect the company's activities, and (ii) that the financial statements correspond to the accounting records and the verifications conducted by the external auditors and comply with applicable rules. The external auditors express their opinion on the financial statements in a report that may be consulted by the shareholders prior to the annual shareholders' meeting.

The external auditors are appointed by a resolution taken at the annual shareholders' meeting for a three-year term (which may not be renewed more than twice). Such appointment must be notified to CONSOB.

On August 2, 1999, Arthur Andersen S.p.A., with registered offices at Via Campania 47, Rome, was appointed as the Company's external auditors for a three year period.

Meetings of Shareholders

Shareholders are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Votes may be cast personally or by proxy. Shareholders' meetings may be called by the Company's board of directors (or the board of statutory auditors) and must be called if requested by holders of at least 20% of the issued and outstanding shares. Shareholders' meetings may also be called if requested by holders of at least 10% of the issued and outstanding shares. In this latter case, however, the board of directors may refuse to call the meeting if it believes that calling such a meeting conflicts with the Company's interest; any dispute arising from such a refusal must be resolved by the competent court. Shareholders are informed of all shareholders' meetings to be held by publication of a notice in the Italian Official Gazette (*Gazzetta Ufficiale*) at least 30 days before the date fixed for the meeting (20 days if the meeting is called by holders of 10% or more but less than 20% of the Company's share capital and 15 days for meetings convened pending a tender offer launched on the Company's shares). The notice is also published in at least two national daily newspapers, as recommended by CONSOB.

Shareholders' meetings must be convened at least once a year. The annual unconsolidated financial statements of the Company are submitted for approval to the ordinary shareholders' meeting which must be convened within six months after the end of the financial year to which such financial statements relate. At ordinary shareholders' meetings, shareholders also appoint the external auditors, approve the distribution of dividends, appoint the board of directors and statutory auditors, determine their remuneration and vote on any business matter submitted by the directors.

Extraordinary shareholders' meetings may be called to pass upon proposed amendments to the by-laws, capital increases and reductions, mergers, spinoffs, dissolutions, issuance of debentures, appointment of receivers and similar extraordinary actions. The notice of a shareholders' meeting may specify up to two or three meeting dates, respectively, for an ordinary or extraordinary shareholders' meeting; such meeting dates are generally referred to as "calls."

The quorum required for shareholder action at an ordinary shareholders' meeting on first call is at least 50% of the total number of issued and outstanding shares, while on second call there is no quorum requirement. In either case, resolutions may be approved by holders of the majority of the shares present or represented at the meeting. The quorum required at an extraordinary shareholders' meeting on first, second and third call is more than 50%, one-third and one-fifth, respectively, of the issued and outstanding shares of the Company. Resolutions of any extraordinary shareholders' meeting require the approval of at least two-thirds of the holders of shares present or represented at such meeting.

To attend any shareholders' meeting, holders of shares must, at least five days prior to the date fixed for the meeting on first call, deposit at the offices of the Company or with such agent or bank as may be specified in the notice of meeting a certified statement of account which evidences their ownership of the shares in exchange for an admission ticket for the meeting. Such statements may be obtained by owners of shares through the Intermediary associated with Monte Titoli (or another centralized clearing institution authorized pursuant to Decree No. 58). Alternatively, beneficial owners may instruct the relevant Intermediaries to provide the admission tickets and proxy forms.

Shareholders may attend the shareholders' meeting by proxy. A proxy may be given only for a single shareholders' meeting (including, however, the first, second and third calls of such meeting) and may be exercised only by the person expressly named in the applicable form. The person exercising the

proxy can be neither a subsidiary of the Company, a director, statutory auditor, or employee of the Company or of any of its subsidiaries nor an external auditor.

Proxies may be solicited by an Intermediary (banks or investment companies, asset management companies and companies having proxy solicitation as their sole purpose) on behalf of a qualified soliciting shareholder (a shareholder who owns and has owned at least 0.5% of the Company's voting capital for at least six months and who has been registered with the Company as holder of such shares for the same period of time). Proxies may also be collected by a shareholders' association from among its members provided that such association has been formed by notarized private agreement, does not carry out business activities other than those relevant to the purpose of the association and is made up of at least 50 individuals each of whom owns not more than 0.1% of the Company's voting capital. Members of the shareholders' association may, but are not obliged to, grant proxies to the legal representative of the association and proxies may also be granted in respect of only certain of the matters to be discussed at the relevant shareholders' meeting. The association may vote in different manners in compliance with the instructions given by each member who has granted a proxy to the association. CONSOB has established provisions which govern the transparency and proper performance of the solicitation and collection of proxies.

Preemptive Rights

Pursuant to Italian law, holders of shares are entitled to subscribe for new issuances of shares, debentures convertible into shares and any other warrants, rights or options entitling the holders to subscribe for shares in proportion to their holdings, unless such issues are for non-cash consideration or preemptive rights are waived or limited by a resolution adopted at an extraordinary shareholders' meeting. There can be no assurance that the owners of ADSs will be able to exercise fully any preemptive rights to which the holders of shares are entitled.

Reports to Shareholders

The Company is required to publish audited annual unconsolidated financial statements and audited annual consolidated financial statements, all prepared in conformity with Italian GAAP and in the Italian language. The Company also produces an annual report to shareholders in the Italian language which contains a directors' report together with audited financial statements (consolidated and unconsolidated) of the Company.

The Company is required to produce semi-annual and quarterly reports to shareholders in the Italian language which contain a directors' report as well as unaudited semi-annual and quarterly condensed unconsolidated and consolidated financial statements of the Company. The Company is also required to prepare annual reports on Form 20-F to be filed with the U.S. Securities and Exchange Commission containing, among other matters, audited consolidated financial statements of the Company.

Preference Shares and Savings Shares

Italian companies are permitted in accordance with Italian law to issue preference shares or savings shares, if their by-laws provide for such issuance. The Company's by-laws currently do not provide for such issuance and would need to be amended at an extraordinary shareholders' meeting to allow the Company to issue preference shares or savings shares. Preference shares would typically not be entitled to vote in an ordinary shareholders' meeting, but would be entitled to vote together with the ordinary shares in extraordinary shareholders' meetings and could be entitled to vote in ordinary shareholders' meetings as well if their terms so provided. Savings shares are entitled to vote in neither ordinary nor extraordinary shareholders' meetings. However, Italian law provides for special meetings of

holders of each class of shares for the approval of resolutions adopted by the shareholders which affect their rights *vis-à-vis* the other classes of shares. Preference shares would have preferential rights to the payment of dividends and to the repayment of capital in the event of liquidation. Savings shares typically have preferential rights to the payment of dividends, but the by-laws may provide for different or additional preferential rights.

Liquidation Rights

Pursuant to Italian law and subject to the satisfaction of the claims of all creditors, shareholders are entitled to a distribution in liquidation that is equal to the nominal value of their shares (to the extent available out of the net assets of the Company). Holders of preferred shares, if any such shares are issued in the future by the Company, would be entitled to a priority right to any such distribution from liquidation. Holders of savings shares, if any such shares are issued in the future by the Company and if the Company's by-laws so provide, would be entitled to a priority right to any distribution from liquidation. Thereafter, all shareholders would rank equally in their claims to the distribution or surplus assets, if any.

Purchase by the Company of its Own Shares

The Company is permitted to purchase its own shares, subject to certain conditions and limitations provided by Italian law. Such shares may only be purchased out of profits available for dividends or out of distributable reserves, in each case as appearing on the latest shareholder-approved unconsolidated financial statements. In addition, the Company may only repurchase fully paid-in shares. Such purchases must be authorized by an ordinary shareholders' meeting. The number of shares to be acquired, together with any shares previously acquired by the Company or any of its subsidiaries may not (except in limited circumstances) exceed in aggregate 10% of the total number of shares then issued and outstanding and the aggregate purchase price of such shares may not exceed the amount specifically approved by shareholders. Shares held in excess of such 10% limit must be sold within one year of the date of purchase. Similar limitations apply with respect to purchases of the shares of the Company by its subsidiaries.

A corresponding reserve equal to the purchase price of such shares must be created in the balance sheet, and such reserve is not available for distribution unless such shares are sold or canceled. Shares purchased and held by the Company may be resold only pursuant to a resolution of the shareholders adopted at an ordinary shareholders' meeting. The voting rights attaching to the shares held by the Company or its subsidiaries cannot be exercised, but the shares can be counted for quorum purposes at shareholders' meetings. Dividends and other rights, including pre-emptive rights, attaching to such shares will accrue to the benefit of other shareholders.

Decree No. 58 provides that the purchase by a listed company of its own shares and the purchase of shares of a listed company by its subsidiaries must take place by way of a public tender offer or on the market, in a manner agreed with Borsa Italiana, ensuring the equality of treatment among shareholders. Subject to certain limitations, the foregoing does not apply to shares being purchased by a company from its employees or from the employees of its controlling company or subsidiaries.

At the date hereof, the Company does not own, directly or indirectly, any of its own shares.

Notification of the Acquisition of Shares and Voting Rights

Pursuant to Italian securities laws, including Decree No. 58 and CONSOB Regulation No. 11971/1999, any acquisition of any interest in excess of 2% in the voting shares of a listed company

must be notified to CONSOB and the company whose shares are acquired. The voting rights attributable to the shares in respect of which such notification has not been made may not be exercised. Any resolution taken in violation of the foregoing may be annulled if the resolution would not have been adopted in the absence of such votes.

In addition, any person whose aggregate interest in the voting shares of a listed company exceeds or falls below 2%, 5%, 7.5%, 10% and successive percentages being multiples of 5, respectively, of the listed company's voting share capital, is obliged to notify CONSOB and the issuer. For the purpose of calculating these ownership thresholds, shares owned by any person, irrespective of whether the voting rights attributable thereto are exercisable by such person or by a third party, are taken into consideration and, except in certain circumstances, account must also be taken of shares held through, or shares the voting rights of which are exercisable by, subsidiaries, fiduciaries or intermediaries. For the purpose of calculating the ownership thresholds of 5%, 10%, 25%, 50% and 75%, shares which: (i) a person has an option to, directly or indirectly, acquire or sell; and (ii) a person may acquire further to the exercise of a warrant or conversion right which is exercisable within 60 days, must also be taken into account. The notification must be repeated when such person, upon the exercise of the right referred to in (i) or (ii) above, acquires or sells shares which cause his aggregate ownership in the listed company to exceed or fall below the relevant thresholds. Notification must be made (except in certain circumstances) within five trading days of the event which gives rise to the notification obligation.

Cross ownership of listed companies may not exceed 2% of their respective voting shares and cross ownership between a listed company and an unlisted company may not exceed 2% of the voting shares of the listed company and 10% of the voting shares of the unlisted company. If the relative threshold is exceeded, the company which is the latter to exceed such threshold may not exercise the voting rights attributable to the shares in excess of the threshold and must sell the excess shares within a period of 12 months. If the company does not sell the excess shares, it may not exercise the voting rights in respect of its entire shareholding. If it is not possible to ascertain which is the latter company to exceed the threshold, the limitation on voting rights and the obligation to sell the excess shares will apply to both of the companies concerned, subject to an agreement to the contrary between the two companies. The 2% limit for cross ownership in listed companies is increased to 5% on the condition that such limit is only exceeded by the two companies concerned following an agreement authorized in advance by an ordinary shareholders' meeting of each of the two companies. Furthermore, if a party holds an interest in excess of 2% of a listed company's share capital, such listed company or the party which controls the listed company may not purchase an interest above 2% in a listed company controlled by the first party. In case of non-compliance, voting rights attributable to the shares held in excess may not be exercised. If it is not possible to ascertain which is the latter party to exceed the limit, the limitation on voting rights will, subject to any different agreement between the two parties, apply to both. Any shareholders' resolution approved in violation of the limitation on voting rights may be annulled if the resolution would not have been adopted in the absence of such votes. The foregoing provisions in relation to cross ownership do not apply when the thresholds are exceeded following a public tender offer aimed at acquiring at least 60% of a company's ordinary shares or when a controlled company purchases shares of a controlling company within the limits set forth in Article 2359 *bis* of the Italian Civil Code and following the procedures described under "— Purchase by the Company of its Own Shares"; however, certain restrictions on the manner of purchase will apply.

Pursuant to Decree No. 58, agreements among shareholders of a listed company or of its parent company regarding the exercise of voting rights must be notified to CONSOB (within 5 days), published in summary form in the press (within 10 days) and filed with the Chamber of Commerce (within 15 days). Failure to comply with the above rules will render the agreements null and void and the shares cannot be voted. These rules apply also to shareholders' agreements which:

- (i) require prior consultation for the exercise of voting rights in a listed company or its controlling company;
- (ii) contain limitations on the transfer of shares or securities which grant the right to purchase or subscribe shares of the companies mentioned in (i) above;
- (iii) provide for the purchase of shares or securities mentioned in (ii) above; or
- (iv) have as their object or effect the exercise (including joint exercise) of a dominant influence over a listed company or its controlling company.

Any shareholders' agreement of the nature described above may have a maximum term of three years or, if executed for an unlimited term, can be terminated by a party upon six months' prior notice. In case of a public tender offer, shareholders who intend to participate in the tender offer may withdraw from the agreement without notice, such withdrawal being effective only in the event that the relevant shares are actually sold.

CONSOB Regulation No. 11971/1999 contains provisions which govern the method and content of the notification and publication of the agreements as well as of subsequent amendments thereto. The regulation also provides that any party to an agreement regarding the exercise of voting rights or referred to in (i) and (iv) above concerning more than 5% of the listed company's share capital is obliged to notify CONSOB and the listed company in question of its overall shareholding in the listed company, unless such information has already been notified in compliance with other provisions of Decree No. 58.

In accordance with Italian antitrust laws, the Antitrust Authority is required to prohibit any acquisition of control in a company which would create or strengthen a dominant position in the domestic market or a significant part thereof and result in the elimination or substantial reduction, on a lasting basis, of competition, provided that certain turnover thresholds are exceeded. However, if the turnover of the acquiring party and the company to be acquired exceed certain higher monetary thresholds, the antitrust review of the acquisition falls within the exclusive jurisdiction of the European Commission.

Minority Shareholders' Rights.

Any shareholder may, within three months, challenge any shareholders' resolution on which he did not vote or in respect of which he dissented on the basis that it was not adopted in conformity with applicable law or our by-laws. Directors and statutory auditors may also challenge shareholders' resolutions on this basis. In case of resolutions approving mergers or spinoffs involving the distribution of unlisted shares, dissenting shareholders may require us to buy back their shares for the average price of such shares over the previous six months.

Each shareholder may bring to the attention of the board of statutory auditors facts or acts which are deemed wrongful. If such shareholders represent more than 2% of our share capital, the board of statutory auditors must investigate without delay and report its findings and recommendations to the shareholders' meeting.

Shareholders representing more than 5% of our share capital have the right to report major irregularities to the relevant court.

In addition, pursuant to Decree No. 58, shareholders representing at least 5% of the Company's share capital and who have been registered for at least six months in the register of shareholders, may commence derivative suits before the competent court against directors, statutory auditors and *direttori*

generali of the Company. The Company may waive or settle the suit unless shareholders holding more than 5% of the share capital vote against such waiver or settlement. The Company will reimburse the legal costs of such action in the event that the claim is successful and the court does not award such costs against the relevant directors, statutory auditors or *direttori generali*.

Under Italian law, the by-laws of privatized companies that impose a maximum limit on the number of shares that may be held by any shareholder must provide for the election of directors and statutory auditors through the voting list system provided under the privatization law to ensure that minority shareholders of a company are represented on its board of directors and board of statutory auditors. Accordingly, our by-laws require that members of our board of directors and our board of statutory auditors, except for the director and the statutory auditor appointed by the Italian government pursuant to its special powers (see “—Special Powers of the Treasury Ministry”), be elected on the basis of candidate lists presented either by the board of directors or by one or more shareholders, including the Treasury Ministry, representing in the aggregate at least 1% of our share capital having the right to vote at ordinary shareholders’ meetings. Such candidate lists must be deposited at our registered office and published in at least three Italian newspapers having general circulation in Italy, two of which must be daily business newspapers. Publication of the candidate list presented by the board of directors must occur at least 20 days before the first call of the shareholders’ meeting or 10 days in the case of candidate lists proposed by shareholders. Each shareholder may present or join in the presentation of only one candidate list and each candidate may appear on only one list.

Under our by-laws, the election of the members of the board of directors, other than the director appointed by the Italian government through the exercise of its special powers, will proceed as follows:

- Four-fifths of the members to be elected will be drawn out from the candidate list that receives the majority of votes expressed by the shareholders in the numerical order in which they appear on the list, rounded off in the event of a fractional number to the next lower number; and
- The remaining board members will be drawn out from the other candidate lists; for this purpose, the votes obtained by each such list will be divided by one, two, three and so forth up to the number of directors to be elected. The numbers obtained through this process are attributed to the candidates of each list in the order in which such candidates rank in the list. The candidates of the various lists are ranked in a single ranking and in decreasing order on the basis of the numbers attributed to each of them. The candidates with the highest numbers are elected.

The election of members of the board of statutory auditors is governed by the same rules, except that the board of directors may not present a candidate list for the board of statutory auditors, and that, under Italian law, if our by-laws provide that our board of statutory auditors consists of four or more members, at least two of them must be appointed by minority shareholders. Our current by-laws provide that our board of statutory auditors consists of three auditors, of which minority shareholders have the right to appoint one, and two alternate auditors, of which minority shareholders have the right to appoint one. The Treasury Ministry has the right to appoint the chairman of our Board of Statutory Auditors (see “—Special Powers of the Treasury Ministry”).

Tender Offer Rules

Pursuant to Decree No. 58, a public tender offer must be made by any person that, by reason of its purchases of shares, holds more than 30% of the ordinary shares of a listed company on an Italian regulated market. The tender offer must cover all the ordinary shares of the listed company. Similarly, a

tender offer for the entire ordinary share capital of a listed company must be made by any person who, having more than 30% of the ordinary shares without exercising majority voting rights at ordinary shareholders' meetings, acquires - by way of acquisition or exercise of subscription or conversion rights - during a 12-month period more than an additional 3% of the ordinary shares. The offer must be launched within thirty days from the date on which the 30% threshold was exceeded, at a price not lower than the average of the weighted average of the market price for the shares in the previous twelve months, and the highest price paid for the ordinary shares by the offeror in the same period. CONSOB Regulation No. 11971/1999 establishes, in particular, a number of exemptions from the duty to launch a tender offer in specific instances, such as (i) when another person holds control of the company, (ii) in respect of transfers of shares among related persons, and (iii) in cases of mergers and spinoffs. Decree No. 58 provides further that the acquisition of an interest above 30% of the ordinary share capital of a company does not trigger the obligation to launch a 100% tender offer if the person concerned has exceeded the threshold as a result of a public tender offer launched on 60% or more of the ordinary shares of the company. This provision, however, is available only (i) if the tender offer has been approved by shareholders of the company holding a majority of the shares (excluding the offeror and the current majority shareholder), and (ii) if the offeror (its subsidiaries, controlling person, related companies and other person connected to it by virtue, inter alia, of shareholders' agreements) has not acquired more than 1% of the ordinary shares of the company in the preceding 12 months; CONSOB shall ensure compliance with these conditions before allowing the offer to be launched. After such an offer has been completed, the offeror nevertheless becomes subject to the duty to launch an offer for 100% of the ordinary shares if, in the course of the subsequent 12 months, (i) it (or its affiliates) purchases more than an additional 1% of the ordinary shares of the company, or (ii) if the company approves a merger or split-up. Finally, Decree No. 58 provides that anyone holding 90% or more of the ordinary shares of a company must launch an offer for the remaining voting shares unless an adequate distribution is restored so as to ensure proper trading within a period of four months. Any shareholder holding more than 98% of the voting shares of a listed company following a tender offer for all such shares issued by the company, has the right to obtain title to the remaining shares within four months after the end of the tender offer if it has stated in the offer document its intention to make such an acquisition at a price set by a court-appointed expert.

MATERIAL CONTRACTS

Neither we nor any member of our group entered into any material contract, other than contracts entered into in the ordinary course of our businesses, during the two years immediately preceding the publication of this document.

EXCHANGE CONTROLS

No exchange control consent is required in Italy for the transfer to persons outside of Italy of dividends or dividends or other distribution with respect to, or of the proceeds from the sale of, shares of an Italian company.

However, Italian resident and non-resident investors who transfer, directly or indirectly (through banks or other intermediaries) into or out of Italy, cash, investments or other securities in excess of Lit. 20 million must report all such transfers to the Italian Exchange Office ("*Ufficio Italiano Cambi*" or "UIC"). In the case of indirect transfers, banks or other intermediaries are required to maintain records of all such transfers for five years for inspection by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting or in certain cases of incomplete reporting, criminal penalties. The UIC is required to maintain reports for a period of ten years and may use such reports, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals, non-profit entities and partnerships that are residents of Italy must disclose on their annual tax returns all investments and financial assets held outside Italy, as well as the total amount of transfers to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period foreign investments or financial assets are no longer owned. No such tax disclosure is required if (i) the foreign investments or financial assets are exempt from income tax; or (ii) the total value of the foreign investments or financial assets at the end of the taxable period or the total amount of the transfers effected during the fiscal year does not exceed Lit. 20 million. Corporate residents of Italy are exempt from these tax disclosure requirements with respect to their annual tax returns because this information is required to be discussed in their financial statements.

We cannot assure you that the present regulatory environment in or outside Italy will continue or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership of the European Union and other international organizations and its adherence to various bilateral and multilateral international agreements.

TAXATION

The following is a summary of certain United States federal and Italian tax matters. The summary contains a description of the principal United States federal and Italian tax consequences of the purchase, ownership and disposition of ADSs by a holder who is a citizen or resident of the United States or a U.S. corporation or who otherwise will be subject to United States federal income tax on a net income basis in respect of the ADSs (a “U.S. holder”). This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ADSs. In particular, the summary deals only with beneficial owners who will hold ordinary shares or ADSs as capital assets and does not address the tax treatment of a beneficial owner who owns 10% or more of our voting shares or who may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies or dealers in securities or currencies, or persons that will hold ADSs as a position in a “straddle” for tax purposes or as part of a “constructive sale” or a “conversion” transaction or other integrated investment comprised of ADSs and one or more other investments. Nor does this summary discuss the treatment of ADSs that are held in connection with a permanent establishment or fixed base through which a non-resident beneficial owner carries on or performs personal services in Italy.

The summary is based upon tax laws and practice of the United States and Italy as in effect on the date of this annual report. Prospective purchasers and current holders of ordinary shares or ADSs are advised to consult their own tax advisors as to the U.S., Italian or other tax consequences of the purchase, beneficial ownership and disposition of ordinary shares or ADSs, including, in particular, the effect of any state, local or national tax laws.

For purposes of the summary, beneficial owners of ADSs who are considered residents of the United States for purposes of the current income tax convention between the United States and Italy (the “Income Tax Convention”), and are not subject to an anti-treaty shopping provision that applies in limited circumstances, are referred to as “U.S. holders.” Beneficial owners who are citizens or residents of the United States, corporations organized under U.S. law, and U.S. partnerships, estates or trusts (to the extent their income is subject to U.S. tax either directly or in the hands of partners or beneficiaries) generally will be considered to be residents of the United States under the Income Tax Convention. Special rules apply to U.S. holders that are also residents of Italy. A new tax treaty to replace the current Income Tax Convention was signed on August 25, 1999, but has not yet been ratified by Italy. The new treaty would not change significantly the provisions of the current Income Tax Convention that are discussed below (except that it would clarify the availability of benefits to certain tax-exempt organizations). These laws are subject to change, possibly on a retroactive basis. Unless otherwise stated, this summary assumes that a U.S. holder is eligible for the benefits of the Income Tax Convention.

For purposes of the Income Tax Convention, the current estate tax convention between the United States and Italy (the “Estate Tax Convention”) and the United States Internal Revenue Code of 1986, or the Code, holders of American Depositary Receipts evidencing ADSs will be treated as the beneficial owners of the underlying ordinary shares represented by those ADSs.

Withholding Tax on Dividends

Italian law provides for the withholding of income tax at a 27% rate on dividends paid by Italian companies to shareholders who are not residents of Italy for tax purposes. Accordingly, the amount initially made available to the Depositary for payment to U.S. holders will reflect withholding at the 27% rate.

Under domestic Italian law, a non-resident holder of shares of common stock may recover up to four-ninths of the tax withheld on dividends by presenting evidence to the Italian tax authorities that income tax has been fully paid on the dividends in the non-resident holder’s country of residence in an amount at least equal to the total refund claimed. Non-resident holders seeking such payments from the Italian tax authorities have experienced extensive delays and incurred expenses.

Alternatively, the 27% withholding tax may be reduced pursuant to an income tax convention between Italy and the non-resident holder’s country of residence. Generally, a reduced 15% withholding tax would be levied under the Income Tax Convention.

Under current Italian law, all shares of Italian listed companies (including the ordinary shares) must be held in a centralized clearing system authorized by CONSOB. Under applicable tax provisions, if the ordinary shares are held through the centralized clearing system managed by Monte Titoli S.p.A. (“Monte Titoli”) (the only such system currently authorized in Italy), no withholding tax on dividends is applied by the Company. Instead of the withholding tax a substitute tax (*imposta sostitutiva*) is applied on dividend distributions to non-resident holders of ordinary shares (or ADSs relating to such ordinary shares) at a rate equal to the withholding tax that would otherwise be due. The substitute tax is applied by the resident or non-resident intermediary with which the ordinary shares are deposited and which participates in the Monte Titoli system (directly or through a foreign centralized clearing system participating in the Monte Titoli system). The procedures to be followed by a non-resident holder in order for the intermediary with which the ordinary shares are deposited to apply a reduced rate of tax pursuant to an applicable income tax convention are as follows. The intermediary must receive (i) a declaration of the non-resident holder that contains certain data identifying the non-resident holder and indicating the existence of all the conditions necessary for the application of the relevant income tax convention and the determination of the applicable treaty rate of withholding and (ii) a certification by the tax authorities of the non-resident holder’s country of residence that the holder is a resident of that country for purposes of the income tax convention and, as far as it is known to such authorities, the holder has no permanent establishment in Italy (which certificate will be effective until March 31 of the year following submission). If the ordinary shares are deposited with a non-resident intermediary, such intermediary must appoint as its fiscal representative in Italy a bank or an investment services company that is resident in Italy, or the permanent establishment in Italy of a non-resident bank or investment services company, to carry out all duties and obligations relating to the application and administration of the substitute tax.

Since the ordinary shares underlying the ADSs will be held by the custodian in the centralized clearing system managed by Monte Titoli, the substitute tax regime described above will apply to the ADSs. In order to enable eligible U.S. holders to obtain a reduction at source or a refund of withholding tax under the Income Tax Convention, the Company and the Depositary have agreed to certain procedures. According to such procedures, the Depositary will send holders of the ADSs certain

instructions before the dividend payment date specifying the documentation required and the deadlines for submission. The documentation generally will include the holder's declaration and the tax certification specified under points (i) and (ii) in the preceding paragraph. Eligible U.S. holders must obtain the documentation under point (ii) above from the U.S. Internal Revenue Service (Form 6166) with respect to each dividend payment, unless a previously filed certification will be effective on the dividend payment date. In addition, an eligible U.S. holder must produce a statement whereby such holder represents to be a U.S. resident individual or corporation and not to maintain a permanent establishment or a fixed base in Italy. The time for processing requests for certification by the Internal Revenue Service normally is six to eight weeks. Accordingly, holders requiring this certification must submit their requests to the Internal Revenue Service as soon as possible after receiving instructions from the Depository. In the case of ADSs held through a broker or other financial intermediary, the required documentation must be delivered to such financial intermediary for transmission to the Depository. In all other cases, eligible U.S. holders must deliver the required documentation directly to the Depository at least five business days prior to the date set for the payment of dividends.

If the documentation is not provided in the time allotted, or if the intermediary (i.e., the custodian in the case of the ADSs) determines that the produced documentation does not satisfy the prescribed requirements or that applicable law does not permit it to apply directly the reduced Income Tax Convention rate, the intermediary will withhold tax at the 27% rate, and eligible U.S. holders will be required to claim an Income Tax Convention refund of 12% of the dividend (representing the difference between 27% and the 15% Income Tax Convention rate) directly from the Italian tax authorities. U.S. residents seeking refunds from the Italian tax authorities have encountered expenses and extensive delays.

Distributions of profits in kind will be subject to withholding tax. In that case, prior to receiving the distribution, the holder will be required to provide the Company with the funds to pay the relevant withholding tax. Distributions of additional ordinary shares issued upon capitalization of reserves to beneficial owners with respect to their ADSs that are made as part of a pro rata distribution to all shareholders of the Company generally will not be subject to Italian tax. However, such additional shares will reduce the tax basis of each single share for the calculation of the capital gains tax.

The gross amount of dividends (that is, the amount before reduction for Italian withholding tax) paid to U.S. holders will be subject to U.S. federal income taxation as dividend income and will not be eligible for the dividends-received deduction allowed to domestic corporations. Dividends paid in lire or Euro will be includible in the income of U.S. holders in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the Depository. If the Depository converts the lire or Euro into dollars on the day it receives them, U.S. holders generally must not realize foreign currency gain or loss in respect of dividend income. A U.S. holder who receives a treaty refund may be required to recognize foreign currency gain or loss, which will be treated as ordinary gain or loss, to the extent the amount of the treaty refund (in dollars) received by the holder differs from the dollar equivalent of the foreign currency amount of the treaty refund on the date the dividends were received by the Depository. The Italian withholding tax (less any refund to which such holder is entitled under the Income Tax Convention) will be treated as a foreign income tax which such holders may elect to deduct in computing their taxable income or, subject to the limitations on foreign tax credits generally, credit against their United States federal income tax liability.

Distributions of additional shares to U.S. holders with respect to their ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Tax on Capital Gains

Italian capital gains tax (“CGT”) normally is imposed on gains with respect to the transfer or sale of shares whether held within or outside Italy. More specifically, a 27% CGT will be levied on gains realized by a non-resident holder on the disposal of a “qualified” shareholding. A “qualified” shareholding is constituted by ordinary shares or ADSs and/or rights representing more than five percent of a listed company’s total share capital or more than two percent of its voting share capital. However, under domestic law, an exemption applies to gains realized by holders not resident in Italy on the disposal of “non-qualified” shareholdings in an Italian company of shares which are listed on a regulated market, such as our ordinary shares, even when such shareholdings are held in Italy. A “non-qualified” shareholding is constituted by an interest in us which does not reach the thresholds described above.

Furthermore, pursuant to the Income Tax Convention, a U.S. holder will not be subject to Italian CGT unless such U.S. holder has a permanent establishment or fixed base in Italy to which the ordinary shares or ADSs are effectively connected. To this end, U.S. residents selling ordinary shares or ADSs may be required to produce appropriate documentation establishing that the above mentioned conditions have been met. Other countries have executed income tax conventions with Italy providing for a similar treatment of Italian CGT.

U.S. holders of ADSs will be subject to U.S. federal income tax on any capital gains to the same extent as on other gains from the disposition of stock.

A non-U.S. holder will not be subject to U.S. federal income tax on gain realized on the sale of ADSs unless (i) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or (ii) in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Transfer Tax

An Italian transfer tax is normally payable on the transfer of shares in an Italian company. The transfer tax will not be payable with respect to any transfers of ordinary shares or ADSs involving non-Italian residents concluded either on a regulated market or with the intervention of a bank or an investment services company.

Estate and Gift Tax

Italian estate and gift tax may be payable on the death of, or a gift by, a beneficial owner of ordinary, preference or savings shares or ADSs, regardless of the residence of the deceased or donor and even if such are held outside of Italy, on the portion of the value of the inheritance or gift exceeding Lit. 350 million (or Lit. 1 billion in case of a beneficiary under the age of 18 or a person with a handicap recognized pursuant to applicable law). Italian inheritance and gift tax, if applicable, is levied at varying rates depending upon the relationship between the beneficiary and the deceased or the donor, respectively.

Under the Estate Tax Convention, a credit for the amount of any estate tax imposed by Italy and attributable to the ADSs will, subject to certain limitations, be allowed against the tax imposed in respect of the ordinary, preference or savings shares or ADSs by the United States on the estate of a deceased person who, at the time of death, was a national of, or domiciled in, the United States. There is currently no gift tax convention between Italy and the United States.

Information Reporting and Backup Withholding

Dividends paid on, and proceeds from the sale or other disposition of, ADSs paid to a U.S. holder generally may be subject to information reporting requirements and may be subject to backup withholding unless the holder (i) establishes that it is a corporation or other exempt holder or (ii) provides an accurate taxpayer identification number on a properly completed Internal Revenue Service Form W-9 and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the Internal Revenue Service.

A non-U.S. holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

DOCUMENTS ON DISPLAY

We are subject to the information reporting requirements of the Exchange Act applicable to foreign private issuers. In accordance therewith, we are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report on Form 20-F, are available for inspection and copying at the U.S. Securities and Exchange Commission's public reference facilities in Washington D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are not required to make filings with the Commission by electronic means.

Item 11. *Quantitative and Qualitative Disclosure About Market Risk*

Price risk management and market risk information

We purchase electricity from outside Italy and also purchase fuel in the international oil and natural gas markets. As a consequence, we are subject to market risks from changes in foreign exchange rates and commodity prices. We are also directly subject to interest rate risks related to our financial indebtedness.

The current system for the reimbursement of fuel costs through tariffs reduces our commodity price and exchange rate risks from fuel purchases and imports of electricity. This structure includes a reimbursement component for fuel costs and imports that is based on, among other things, an index to the price of a basket of fuels on international markets. This index is adjusted so that changes in fuel costs and exchange rate fluctuations are reflected in the levels of reimbursements and, as a consequence, in tariffs. As a result, our commodity price and exchange rate exposures for fuel purchases relate mainly to the time lag between our incurrence of fuel costs and calculation period used to determine the level of reimbursements.

Until the end of 1999, we did not systematically hedge this exposure through the use of financial derivatives because we believed this risk was limited, as its effect is to shift revenues from one accounting period to another, and our profit levels over the long run have generally been unaffected by fluctuations in fuel prices or exchange rates relating to fuel costs. However, in response to both the increased volatility of commodities markets in 2000 and the possibility that the Energy Authority will discontinue the fuel cost reimbursement mechanism after the introduction of the pool market, which is currently expected to occur in 2002, we have begun systematically to hedge our foreign exchange and commodity exposure for fuel purchases arising from the time lag noted above through Enel F.T.L.

Once the pool market is operational, we will also face the market risk arising from the possibility that electricity market prices will not entirely correlate to costs borne by our generation companies. However, we believe this risk is mitigated by:

- The substantial homogeneity of the productive structure of Italian generation companies;
- The limited import capacity of the Italian electricity network, arising from the saturation of existing international transmission lines and the geographical and environmental obstacles to building new ones; and

Our exchange rate exposure for electricity imports is principally limited to imports denominated in Swiss francs. In 2000, approximately 43% of our electricity imports by value were denominated in Swiss francs. The balance of our electricity imports are denominated in Euro, and we do not have an exchange rate risk on these imports as a result. We actively manage the exchange rate exposure on our accounts payable in Swiss francs.

Almost all of our long-term debt is denominated in the currencies of countries participating in the Euro and as a result is not subject to exchange rate risk. Exchange rate risk on most of our long-term debt that is denominated in non-Euro currencies is covered by the Republic of Italy either entirely or within a 5% band. The Republic of Italy covers these risks pursuant to a program for eligible companies that were financing new industrial investments as an incentive for economic development. At December 31, 2000, we were fully exposed to exchange rate risk on only Lit. 415 billion out of a total Lit. 19,462 billion in outstanding long-term debt.

Our financial risk manager is responsible for analyzing, monitoring and controlling our interest rate and foreign exchange risk management activities, while our treasurer is responsible for executing related financial operations. Senior management provides these two members of our finance department with guidance as to the strategic aspects of the management of our debt portfolio.

Our calculation and measurement techniques are generally consistent with international banking standards established by the Basle Committee. Moreover, our policies regarding risk levels are generally significantly more conservative than those established by the Basle Committee.

Our financial risk manager is responsible for measuring actual risk levels on the portfolio of financial instruments and monitoring compliance with our policies.

With respect to commodities risk management, Enel F.T.L. has managed fuel procurement and logistics for all of our companies since it began operations in June 2000. Senior management provides Enel F.T.L. with guidance on appropriate hedging strategies and monitors the results of hedging activities, while Enel F.T.L. has responsibility for identifying and executing commodities-related operations.

We do not buy and sell derivative financial instruments for trading purposes.

We have estimated our market risk exposure using sensitivity analysis. Market risk exposure represents the change in the fair value of financial instruments, including financial and commodity derivatives, resulting from an assumed 10% adverse change in market prices or rates. We determined fair value using pricing models that measure the effect of changes in market prices according to market practice for each category of financial instrument.

We have used sensitivity analysis to determine the market risk exposure associated with our debt and with our foreign exchange, interest rate and commodity derivatives. We have summarized the results

of this sensitivity analysis in the following paragraphs. Actual changes in market prices or rates may differ from hypothetical changes.

The notional value of a derivative is the contractual amount on the basis of which the differentials are exchanged. This amount can be expressed either on a value basis or on a physical quantities basis such as tons. Amounts expressed in a foreign currency are converted into lire by applying the exchange rate at end of the relevant period. Amounts expressed in the currency of a participant in the European Monetary Union are translated using the fixed exchange rate for that currency and the Euro.

Foreign exchange risk

As explained above, our principal foreign exchange risk relates to fuel costs and electricity imports. At December 31, 2000, we also had foreign exchange risk exposure on Lit. 415 billion in debt denominated in non-Euro currencies, which represented approximately 2% of our total long-term debt outstanding. Our exposure to foreign currency exchange rates is primarily in respect of U.S. dollars for fuel purchases and in respect of Swiss francs for electricity imports.

We use forward exchange contracts and currency options in managing our foreign exchange risk. At December 31, 2000, we had forward exchange contracts and options outstanding with an aggregate notional amount of Lit. 746 billion. The fair value of these derivatives was negative by Lit. 48 billion at such date. Assuming a 10% depreciation of the Euro against all the other currencies to which we have exchange rate exposure, the fair market value of these financial instruments, including long-term debt exposed to foreign exchange risk, would have declined by Lit. 96 billion (Lit. 41 billion in 1999). Moreover, we had Euro/dollar forward exchange contracts focused on the hedging of the foreign exchange risk arising from the time lag related to the fuel cost reimbursement mechanism with a aggregate notional amount of Lit. 4,620 billion at December 31, 2000. Any change in fair value of these contracts deriving from a possible appreciation or depreciation of the Euro against the dollar would be fully offset by a corresponding change in the amount of fuel cost reimbursements, as long as the reimbursement system remains unchanged.

Interest rate risk

Our outstanding total medium-term and long-term debt at December 31, 2000 amounted to Lit. 19,462 billion, of which Lit 11,901 billion, or 61.0% of the total, bore interest at floating rates, principally based on Euribor, and Lit 7,561 billion, or 39.0% bore interest at fixed rates.

To improve the mix of our fixed and floating rate exposures, we have entered into interest rate hedging contracts, particularly interest rate swaps and collars. In interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to the notional principal amount and the fixed or floating interest rates that we have agreed with the other parties. An interest rate collar is a combination of options that enable us to lock our debt cost into a predetermined interest rate range. We primarily use zero-cost collars that do not require payment of an option premium.

At December 31, 2000, we had arranged interest rate derivatives with a notional amount of Lit. 8,367 billion, of which Lit. 6,967 billion were interest rate swaps and Lit. 1,400 billion were interest rate collars. The fair value of these derivatives was negative by Lit. 122 billion at such date (Lit. 197 billion in 1999). With these contracts in place, the portion of our debt still exposed to interest rate fluctuations, appropriately weighting the notional value of interest rate collars, is approximately 28% of our total long-term debt.

Based on the results of our sensitivity analysis, at December 31, 2000, a 10% decrease in interest rates would have increased the net negative fair value of our portfolio of financial instruments, including long term debt and interest rate derivatives, by Lit. 292 billion (Lit. 261 billion in 1999). However, we do not consider such an increase in the net negative fair value to be a significant risk, because it would affect earnings and cash flow only if we were to reacquire all or a portion of these instruments on the open market prior to their maturity.

Effective interest rate risk depends on the likelihood that interest rates will increase. Because our revenues are not directly linked to interest rates, our principal interest rate risk is that a general rise in interest rates will result in a higher interest expense on the unhedged portion of our floating-rate debt. If interest rates were to increase by 10% over December 31, 2000 levels, our consolidated interest expense, including with respect to long term debt and interest rate derivatives, would increase by a total of approximately Lit. 9 billion per year (Lit. 13 billion in 1999). Such amount is the net result of the impact of the increase in interest charges on the floating rate portion of our outstanding long term debt, partially offset by positive flows deriving from our hedging contracts.

Commodity price risk

In 1999, we entered into commodity-based derivative contracts on a limited basis to fix the benefit associated with futures prices that are below expected fuel cost reimbursements. Our commodity-based derivative contracts consist mainly of over-the-counter market swaps related to fuel oil products. At December 31, 1999, the notional amount of these open contracts related to 30,000 tons of fuel oil, the fair value of which was not material. In 2000, due to high volatility in the currency and commodity markets, combined with the possibility that the Energy Authority will dismantle the fuel cost reimbursement mechanism once the pool market is operational, we adopted a systematic approach to cover commodity pricing and currency risk linked to the reimbursement mechanism.

In 2000, Enel F.T.L. entered into derivatives contracts on commodities in order to fix part of the difference between the cost and contribution received from the Authority under the Equalization Fund mechanism.

At December 31, 2000, the notional value of our open contracts was as follows:

- Futures: Lit. 1,141 billion or 21,827 contracts;
- Swaps on petroleum indexes: Lit. 82 billion or 310,000 tons; and
- Swaps on gas transmission fees: 1 billion cubic meters per year.

At December 31, 2000 the fair value of these contracts was negative by Lit. 234 billion. This fair value fully offsets the positive fair value of the “cost-revenues” margin on physical purchases.

The sensitivity analysis shows the effects on the fair value of commodity derivatives contracts, as determined by a 10% increase or decrease in market price. Based on the results of our sensitivity analysis, at December 31, 2000, a 10% increase in commodity price levels would have caused an increase in the value of our derivative contracts of Lit. 23 billion, while a 10% decrease would have caused a concomitant decrease of Lit. 23 billion. We did not conduct a sensibility analysis to determine the market risk exposure associated with our commodity derivatives open at December 31, 1999, since the fair value of such derivatives was not material.

Changes in Market Risk Exposure Compared to 1999

Due to the high volatility in the currency and commodity markets, combined with the possibility that the Energy Authority will dismantle the fuel cost reimbursement mechanism once the pool market becomes operational, starting in 2000, we have adopted a systematic approach to cover commodity pricing and currency risk linked to the fuel cost reimbursement mechanism. In 1999, we entered into commodity-based derivative contracts on a limited basis. Our policy on market risk management in 2000 was otherwise substantially unchanged from 1999. The characteristics and the mix of the Group's financial instruments with exposure to interest rate and foreign exchange rate risk at December 31, 2000 have not changed substantially from the preceding year. For a summary of comparison of the nominal amounts, carrying amounts and market values of financial instruments, see note 22 to our consolidated financial statements.

Item 12. *Description of Securities Other than Equity Securities*

Not applicable.

PART II

Item 13. *Defaults, Dividends Averages and Delinquencies*

None.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

Not applicable.

Item 15. *[Reserved]*

Item 16. *[Reserved]*

Item 17. *Financial Statements*

Not applicable.

Item 18. *Financial Statements*

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Item 19. Exhibits

Index to Exhibits filed with this Report

1. By-laws of the Company.
 - (i) By-laws effective until July 8, 2001
 - (ii) By-laws effective starting from July 9, 2001
- 2.(a) Deposit Agreement among Enel S.p.A. and Citibank N.A., as Depositary, and the owners of American Depositary Receipts (incorporated by reference to the Registrant's Registration Statement (File No. 333 – 6868) on Form F-6 effective as of October 29, 1999)
8. List of Subsidiaries.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements of filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENEL S.P.A.

(Registrant)

/s/ FULVIO CONTI

FULVIO CONTI

Chief Financial Officer

Date: July 2, 2001

ENEL S.p.A. AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
ENEL S.p.A.:

We have audited the accompanying consolidated balance sheets of ENEL S.p.A. (an Italian corporation) and subsidiaries (the “Company”) as of December 31, 1999 and 2000, and the related consolidated statements of income, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ENEL S.p.A. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in Italy.

The accounting practices used by the Company in preparing the accompanying consolidated financial statements conform with accounting principles generally accepted in Italy, but do not conform with accounting principles generally accepted in the United States (“U.S. GAAP”). A description of these differences and a reconciliation of net income and shareholders’ equity to U.S. GAAP are set forth in Notes 24 and 25 of the Notes to the Consolidated Financial Statements.

ARTHUR ANDERSEN S.p.A.

Rome, Italy,
April 20, 2001

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 1999 AND 2000

	<u>1999</u>	<u>2000</u>	<u>2000</u>
	(billions of lire)		(millions of U.S. dollars)
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2)	1,027	951	461
Receivables (Note 4):			
Customers	5,504	6,740	3,268
Other	2,966	3,662	1,775
Equalization fund receivable (Note 5)	360	3,508	1,701
Inventories (Notes 2 and 6)	1,944	3,198	1,551
Accrued income and prepayments.....	191	252	122
	-----	-----	-----
	11,992	18,311	8,878
	-----	-----	-----
Utility plant (Notes 2 and 7)	148,624	152,963	74,164
Accumulated depreciation (Notes 2 and 7)	(81,969)	(87,676)	(42,510)
	-----	-----	-----
	66,655	65,287	31,654
	-----	-----	-----
Construction work in progress and advance payments	6,756	3,922	1,902
	-----	-----	-----
	73,411	69,209	33,556
	-----	-----	-----
Other non-current assets:			
Intangible assets (Notes 2 and 8).....	123	4,497	2,180
Investments (Notes 2 and 9)	467	2,160	1,047
Receivable from unconsolidated subsidiaries and affiliated companies (Note 10).....	-	913	443
Social security relief receivable.....	181	-	-
Other	991	1,014	492
	-----	-----	-----
	1,762	8,584	4,162
	-----	-----	-----
Total Assets	87,165	96,104	46,596
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

ENEL S.p.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1999 AND 2000

	<u>1999</u>	<u>2000</u>	<u>2000</u>
	(billions of lire)		(millions of U.S. dollars)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term debt (Note 11)	3,738	4,003	1,941
Short-term debt (Note 11)	3,003	8,401	4,073
Trade accounts payable	6,089	8,421	4,083
Taxes payable	2,272	1,135	550
Advances from customers	1,704	573	278
Accrued expenses and other current liabilities	4,098	7,715	3,741
	-----	-----	-----
	20,904	30,248	14,666
	-----	-----	-----
Long-term debt (Note 11)	16,961	15,459	7,495
	-----	-----	-----
Other non-current liabilities:			
Reserves for pensions and similar obligations (Note 12)	2,041	799	387
Reserves for employee termination indemnities	2,996	2,953	1,432
Deferred income taxes (Note 21)	6,206	7,336	3,557
Other (Notes 13 and 22)	4,023	3,852	1,868
	-----	-----	-----
	15,266	14,940	7,244
	-----	-----	-----
Shareholders' equity (Note 14):			
Share capital, lire 1,000 par value per share (12,126,150,379 shares authorized, issued and outstanding)	12,126	12,126	5,879
Legal reserve	2,425	2,425	1,176
Law 292/93 reserve	6,036	6,036	2,926
Other reserves	56	56	27
Retained earnings	8,850	10,578	5,129
Net income	4,541	4,236	2,054
	-----	-----	-----
	34,034	35,457	17,191
	-----	-----	-----
Total Liabilities and Shareholders' Equity	87,165	96,104	46,596
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2000</u>
		(billions of lire)		(millions of U.S. dollars)
Operating revenues (Notes 2 and 15):				
Sales of electricity.....	25,681	26,419	24,757	12,003
Equalization Fund contributions.....	12,063	11,772	18,932	9,179
Other	2,044	2,393	4,929	2,390
	-----	-----	-----	-----
	39,788	40,584	48,618	23,572
Operating expenses:				
Personnel (Note 16)	8,025	7,402	6,837	3,315
Fuel (Note 17)	6,663	6,308	10,929	5,299
Purchased power (Note 17)	6,306	6,831	8,467	4,105
Depreciation and amortization (Note 2)	6,036	6,201	6,697	3,247
Services and rentals (Note 18)	2,223	2,518	4,749	2,303
Materials and supplies (Note 17)	1,585	1,526	1,643	797
Provisions.....	815	752	1,034	501
Other	455	550	759	368
Capitalized expenses (Note 2)	(1,924)	(1,930)	(1,701)	(825)
	-----	-----	-----	-----
	30,184	30,158	39,414	19,110
Operating income	-----	-----	-----	-----
	9,604	10,426	9,204	4,462
Financial income (expense) (Note 19):				
Financial income	524	356	289	140
Financial expense	(2,004)	(1,487)	(1,545)	(749)
	-----	-----	-----	-----
	(1,480)	(1,131)	(1,256)	(609)
Equity losses.....	-----	-----	-----	-----
	-	(439)	(887)	(430)
Extraordinary income (expense) (Notes 2 and 20)	(907)	(1,057)	368	179
	-----	-----	-----	-----
Income before income taxes	7,217	7,799	7,429	3,602
	-----	-----	-----	-----
Income taxes (Notes 2 and 21)	2,931	3,258	3,193	1,548
	-----	-----	-----	-----
Net Income	4,286	4,541	4,236	2,054
	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

	<u>Share Capital</u>	<u>Legal Reserve</u>	<u>Law 292/93 Reserve</u>	<u>Other Reserves</u>	<u>Retained Earnings</u>	<u>Net income</u>	<u>Total</u>
	(billions of lire)						
Balance at January 1, 1998	12,126	202	10,607	1,978	4,275	3,327	32,515
.....	=====	=====	=====	=====	=====	=====	=====
Allocation of 1997 net income							
to reserves	-	48	-	-	2,357	(2,405)	-
Other	-	1	-	-	-	-	1
Dividends	-	-	-	-	-	(922)	(922)
Net income for 1998	-	-	-	-	-	4,286	4,286
	-----	-----	-----	-----	-----	-----	-----
	--			-	--	-	--
Balance at December 31, 1998	12,126	251	10,607	1,978	6,632	4,286	35,880
	=====	=====	=====	=====	=====	=====	=====
Allocation of 1998 net income							
to reserves	-	103	-	-	2,218	(2,321)	-
Transfer to reserves	-	2,071	(2,071)	-	-	-	-
Reserve distribution	-	-	(2,500)	(1,922)	-	-	(4,422)
Dividends	-	-	-	-	-	(1,965)	(1,965)
Net income for 1999	-	-	-	-	-	4,541	4,541
	-----	-----	-----	-----	-----	-----	-----
	--			-	--	-	--
Balance at December 31, 1999	12,126	2,425	6,036	56	8,850	4,541	34,034
	=====	=====	=====	=====	=====	=====	=====
Allocation of 1999 net income							
to reserves	-	-	-	-	1,728	(1,728)	-
Dividends	-	-	-	-	-	(2,813)	(2,813)
Net income for 2000	-	-	-	-	-	4,236	4,236
	-----	-----	-----	-----	-----	-----	-----
	--			-	--	-	--
Balance at December 31, 2000	12,126	2,425	6,036	56	10,578	4,236	35,457
	=====	=====	=====	=====	=====	=====	=====
	(millions of U.S. dollars)						
Balance at December 31, 2000	5,879	1,176	2,926	27	5,129	2,054	17,191
	=====	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2000</u>
				(millions of U.S. dollars)
	(billions of lire)			
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	4,286	4,541	4,236	2,054
Depreciation and amortization	6,036	6,201	6,697	3,247
Writedowns (revaluations), net	19	804	887	430
Net changes in reserves for employee termination indemnities	162	99	(43)	(21)
Net changes in other reserves	570	279	225	109
Loss (gain) on disposal of assets, net	51	94	(136)	(66)
Interest income	(524)	(356)	(289)	(140)
Interest expense	2,004	1,487	1,545	749
Income taxes	2,931	3,258	3,193	1,548
	-----	-----	-----	-----
Cash generated from operating income before working capital changes	15,535	16,407	16,315	7,910
(Increase) Decrease:				
- Inventories	611	(217)	(1,078)	(522)
- Accounts receivable	18	(1,349)	(1,867)	(905)
- Accrued income, prepayments and other	(937)	39	(60)	(29)
- Equalization fund receivables	3,433	765	(3,244)	(1,573)
- Trade accounts payables	775	1,877	2,395	1,161
- Accrued expenses and other current liabilities	160	84	279	135
	-----	-----	-----	-----
Cash generated from operations	19,595	17,606	12,740	6,177
Interest received	144	356	289	140
Interest paid	(2,264)	(1,842)	(1,600)	(776)
Income taxes paid	(2,227)	(2,608)	(1,945)	(943)
	-----	-----	-----	-----
Net cash provided by operating activities	15,248	13,512	9,484	4,598
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investments:				
- Capital expenditure	(5,871)	(5,653)	(4,679)	(2,268)
- Unconsolidated subsidiaries and intangibles	146	(97)	(2,578)	(1,250)
- Other changes in fixed assets	(302)	1,153	268	129
	-----	-----	-----	-----
	(6,027)	(4,597)	(6,989)	(3,389)
Disposals:				
- Fixed assets	267	44	350	170
	-----	-----	-----	-----
Net cash used in investing activities	(5,760)	(4,553)	(6,639)	(3,219)
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Change in long-term debt	(5,657)	(5,958)	(2,143)	(1,039)
Change in short-term debt	(431)	3,002	4,563	2,212
	-----	-----	-----	-----
	(6,088)	(2,956)	2,420	1,173
Dividends paid	(922)	(6,387)	(2,813)	(1,364)
Other	(11)	(1,443)	(2,528)	(1,225)
	-----	-----	-----	-----
Net cash used in financing activities	(7,021)	(10,786)	(2,921)	(1,416)
	-----	-----	-----	-----
NET CASH FLOW FOR THE YEAR	2,467	(1,827)	(76)	(37)
CASH BALANCE AT BEGINNING OF THE YEAR	387	2,854	1,027	498
	-----	-----	-----	-----
CASH BALANCE AT END OF THE YEAR	2,854	1,027	951	461
	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

ENEL S.p.A. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL

ENEL S.p.A. (the “Parent”) and its subsidiaries (the “Subsidiaries” or the “Subsidiary Companies”), (collectively the “Company” or the “ENEL Group”) are involved in the generation, transmission and distribution of electricity and related activities, providing the majority of the electric service in Italy. The Company is the successor entity to Ente Nazionale per l'Energia Elettrica, which was established as a public statutory body by the Italian Parliament in 1962 when the Treasury Ministry nationalized approximately 1,250 private electric companies. In July 1992, the public statutory body was converted into a joint stock company in accordance with Law No. 359 of August 8, 1992 which provided for the privatization of the ENEL Group.

ENEL's privatization was launched in 1999 when a total of 3,848,802,000 ENEL ordinary shares, representing 31.74% of its capital stock, were placed on the market, with the net proceeds going to the Ministry of Treasury (the “Treasury Ministry”) of the Republic of Italy. At December 31, 2000, approximately 68% of the share capital of the Parent Company is owned by the Treasury Ministry.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Basis of Presentation

The Company's consolidated financial statements were prepared from the accounts of the Parent and the individual financial statements of the Company's subsidiaries (whether directly or indirectly controlled), in accordance with accounting principles prescribed by Italian law and supplemented by the accounting principles issued by the Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri (“Italian GAAP”). The financial statements have been reformatted from the original Italian consolidated financial statement presentation and include certain financial statement reclassifications and additional disclosures in order to conform more closely with the form and content of financial statements required by the United States Securities and Exchange Commission. The reclassifications did not affect reported consolidated net income or shareholders' equity.

Prepaid income taxes are recorded among other receivables and other non-current assets and not as a reduction of deferred income taxes. The consolidated balance sheet at December 31, 1999 has therefore been reclassified to conform with the above described presentation. These reclassifications did not affect reported consolidated net income or shareholders' equity.

Differences between the Company's accounting principles and accounting principles generally accepted in the United States (“U.S. GAAP”) and their effects on consolidated shareholders' equity as of December 31, 1999 and 2000 and on consolidated net income for each of the three years in the period ended December 31, 2000, are set forth in Notes 25 and 26.

These financial statements are presented in Italian lire (“lire”) and, for 2000, are also presented in U.S. dollars, solely for the convenience of the reader, at the exchange rate of lire 2,062.49 = U.S. \$1.00, the noon buying rate in euros converted into lire in the City of New York for cable transfers of foreign currencies as announced by the Federal Reserve Bank of New York for custom purposes on December 29, 2000. This rate is computed using the December 31, 2000 rate of U.S. \$0.9388 = euro 1.00 and the fixed euro/lire exchange rate of lire 1,936.27 = euro 1.00 established on December 31, 1998. No representation is made that lire or euro amounts have been, could have been, or could be converted into U.S. dollars at that or any other rate of exchange.

Consolidation Principles

The Company's consolidated financial statements include the Parent's statutory accounts and the accounts of companies controlled by ENEL S.p.A., directly or indirectly, either by holding the majority of the voting rights or sufficient votes to enable it to exercise control at ordinary shareholders' meetings. Control is defined as the ability to govern the financial and operating policies of the enterprise so as to obtain benefits from the activities. The statutory financial statements reflect certain tax-basis amounts. Adjustments are made in consolidation to eliminate the effect of the tax-basis reporting and to eliminate all significant intercompany balances and transactions, including any unrealized gains and losses on such transactions.

Insignificant subsidiaries are not consolidated. Investments in entities that are not consolidated, when the Company has a 20% to 50% investment, if material, are accounted for under the equity method. Other investments are recorded at cost, and adjusted if a permanent impairment in value is present.

In July 2000, the Company acquired an additional interest in Wind Telecomunicazioni S.p.A. ("WIND"), as part of a settlement agreement among the Company, France Telecom and Deutsche Telekom. As part of the settlement, the Company acquired a portion of Deutsche Telekom's interest, thus raising the Company's interest to 56.63% while France Telecom owns the remaining interest. Additionally, a new shareholders' agreement was signed with France Telecom, which eliminated certain management and control restrictions previously imposed on the Company. The acquisition of this additional interest has been treated as a purchase, with resulting goodwill in the amount of lire 1,115 billion, which is being amortized over 15 years (see Note 9). The investment in WIND continues to be accounted for under the equity method, due to the existence of control restrictions for the larger part of the year. Starting in 2001, WIND will be consolidated using the line-by-line method.

During 2000, the Company began to consolidate Enel.si S.p.A., Enelpower S.p.A., Enelpower UK Ltd., Sfera Scpa, Enel.Re Ltd., Enel.it S.p.A. and Enel.FTL S.p.A. since the companies became operational during the period. In 2000, the Company also acquired CHI Energy Inc. ("CHI"), Colombo Gas S.p.A., Camigas Srl and its subsidiaries and has included these companies in the consolidated financial statements as of December 31, 2000 (only the balance sheet items of CHI are contained in these financial statements since the acquisition took place in December 2000).

Cash and Cash Equivalents

Cash equivalents are comprised of highly liquid temporary investments with original maturities within three months or less.

Inventories

Inventories are stated at purchase cost, calculated on the basis of the weighted average cost and primarily include fuel stock and other materials.

The obsolete or slow moving inventories are written down to their estimated realizable value.

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

Utility Plant

Utility plant is stated at cost as adjusted by revaluations in accordance with various Italian laws.

Revaluations prior to 1993 increased the consolidated and statutory net book value of utility plant. Increases in utility plant of the Parent were credited to retained earnings in the statutory and consolidated financial statements. Revaluations that increased net assets of the Subsidiary Companies were reflected as an increase in the "Other reserves" in the accompanying consolidated financial statements.

The application of Law No. 292 of August 9, 1993 resulted in a restatement of the net book value of the Parent's utility plant in its statutory books to a valuation based upon a projected economic return. Such revaluation increased the gross book value of utility plant and created a distributable reserve in the statutory accounts that is reflected in the "Law 292/93 Reserve" in the accompanying consolidated financial statements. At the date of the revaluation, the total restated net book value in the statutory accounts approximated the total net book value balance reflected in the consolidated accounts. The consolidated financial statements reflect corresponding increases in both the gross book value and accumulated depreciation of utility plant to bring the gross book value stated in the statutory and consolidated accounts in line. The application of Law No. 292 did not result in a restatement of the net assets of Subsidiary Companies.

Costs directly associated with improvements are capitalized while routine maintenance and repairs are expensed. Interest prior to 1989 was capitalized; however no amounts have been capitalized since.

If management believes that there has been a permanent impairment in the net value of any specific asset, a write-down will be recorded accordingly. The original value of the asset, net of depreciation, may be reinstated if the reasons for such a write-down subsequently cease to exist.

Replaced or retired property is removed from the utility plant accounts, along with the related accumulated depreciation. The aggregate gains and losses resulting from asset retirements were not material for any of the three years in the period ended December 31, 2000.

Grants received to finance specific construction projects, the value of which is recorded among tangible assets, are recognized once the legal right to such grants has been acquired and their amount is reasonably determinable. These amounts are amortized over the life of the asset.

Depreciation

The consolidated financial statements reflect depreciation of utility plant on a straight line basis, using rates reflecting the economic useful life ("economic depreciation") of the related assets. The statutory financial statements of the Parent and Subsidiary Companies, as permitted by Italian law, depreciate utility plant over prescribed tax lives ("fiscal depreciation") which are shorter than the economic useful lives and doubles the fiscal depreciation in the first three years an asset is placed in service. The excess amount of depreciation in the statutory accounts is eliminated in the consolidated financial statements, taking into consideration the contributions from customers for new connections, accordingly, such contributions are amortized over the useful life of the related assets.

Depreciation expense in the accompanying consolidated financial statements was based on the following estimated economic useful lives:

<u>Plant categories</u>	<u>Average years of estimated Economic useful life</u>
Buildings and associated land.....	40
Generating plant:	
Hydroelectric	40
Thermal	20
Geothermal	12
Other renewable sources	20
Transmission lines	35
Distribution:	
Transformer and substations	20
Lines	18-20

Intangible assets

Intangible assets are recorded following the same criteria adopted for tangible assets. They include the non-amortized balance of investments whose economic life spans over several years. For intangible assets acquired, amortization is calculated on a straight line basis over five years or a different period if deemed to be more representative of the expected useful life of the assets. Such criteria are adopted also for consolidation purposes. The extraordinary contribution due upon the suppression of the Electricity Sector Employee Pension Fund, pursuant to Law 488, December 23, 1999 (the 2000 Budget Law), has also been recorded under intangible assets. The amount is amortized over a period of 20 years, as allowed under Italian Law (see Notes 8 and 13).

Other Non-Current Assets

Other non-current assets primarily include interest bearing long-term receivables stated at nominal value.

Reserve for Employee Termination Indemnities and Other Employee Benefits

The Company's employees are eligible for severance pay pursuant to Italian law. The Company accrues a reserve for such employee termination liabilities, net of applicable advances, over the employees' service periods.

The Company also contributes to a management retirement plan that pays pension benefits, in accordance with Italian law and by agreements with the trade unions, to managers who retired prior to April 1, 1998. With the establishment of the FONDENEL Fund, the liabilities related to managers employed as of April 1, 1998 were transferred to the FONDENEL Fund. As more fully described in Note 12, FONDENEL is managed externally and subject to the regulations governed by Decree No. 14 on April 21, 1993. In the last quarter of 2000, the Company reached an agreement with the majority of the participants in the plan for an early payment of the provision.

Accordingly, the pension benefits liability as of December 31, 2000 relates solely to those individuals who were retired as of April 1, 1998 and didn't agree to the early payment in 2000. The reserve also includes amounts to be paid to existing employees who have worked at least 35 years with the Company, in accordance with the collective labor contract and current union agreements.

In addition, the Group Companies make contributions to certain employee associations that provide medical and various other employee benefits to both current and retired employees. These plans are not administered by the Companies, and contributions are determined in accordance with the provisions of negotiated contracts with the trade unions. The Group Companies expenses its contributions to these plans when they are paid. Such amounts totaled lire 161 billion, lire 163 billion and lire 160 billion for the years ended December 31, 1998 1999 and 2000, respectively.

As established by the Collective Labor Agreement signed between the ENEL Group and the employees' Trade Union, the Company grants to its employees hired before July 1, 1996 (working, retired or to their surviving spouses) an 80% reduction on electricity tariffs (excluding taxes and duties) within certain limits of consumption per year. These discounts are primarily presented as a reduction in operating revenues in the accompanying consolidated financial statements.

In March 1999, the Company and the managers' union signed an agreement which replaced the managers' benefit of discounted electricity tariff rates with a monthly bonus paid during their working life and a one-time bonus paid at their retirement date.

In November 1999, the investors in ENEL's initial public offering included 70,303 ENEL employees (about 87% of those eligible), these employees purchased an aggregate of 1.5% of ENEL's capital stock. No discount was reserved for employees, with the exception of bonus shares in a ratio of 11 shares for every 200 shares held for a period of at least one year (for the general public, the allocation was 10 shares for every 200 shares held at least one year). ENEL's employees were allowed to get advances from the provision for termination indemnities for the purchase of these shares. The total amount of the advances was lire 1,445 billion.

Operating Revenues

Revenues from the sale of electricity are recorded when the customer is billed or the meter is read prior to year-end. Revenues from the supply of electricity provided after the last meter reading prior to year-end are recognized in the subsequent period when billed. Pricing is based on the tariff structure, in effect for the period, as established by law and the Electrical Energy and Gas Authority (the "Energy Authority"). Revenues from other services are recognized when the service is provided and consist primarily of connections, inspections, and repositioning services.

The Company's revenues currently also include amounts for the reimbursement of fuel costs and electricity purchases, through a contribution from the Equalization Fund (see Notes 5 and 15). Revenues received from the Equalization Fund as a reimbursement of fuel used for thermal production are recognized in the period when electricity is produced and consequently the fuel is consumed. Revenues received as a reimbursement of purchased power are recognized when electricity is supplied to the transmission network.

Other operating revenues are recognized in the period in which the service has been performed.

Statements of Cash Flows

The consolidated statements of cash flows are prepared using the indirect method and are in accordance with Standard No. 7, issued by the International Accounting Standard Committee, as well as Italian GAAP.

The extraordinary distribution of funds from the reserve for employee termination indemnities to employees for the purchase of the Company's shares in 1999, for a total of lire 1,445 billion, is included in the consolidated statements of cash flows from financing activities in the item "other", as are the payment of the first installment of the extraordinary contribution for the elimination of the Electricity Industry Employee

Pension Fund and the early payment of retirement benefits both incurred in 2000 for a total amount of lire 2,543 billion.

Vacation Pay

Vacation pay is provided in accordance with Italian law. The related liabilities were lire 164 billion and lire 173 billion as of December 31, 1999 and 2000, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

Income Taxes

In connection with the issuance in 1998 by the Italian Accounting Profession of Italian Accounting Standard No. 25, the Company revised in the same year its accounting policy for income taxes.

Deferred tax assets and liabilities are recognized for differences between the financial reporting and tax bases of assets and liabilities at each reporting period. Certain reserves within shareholders' equity, totaling lire 500 billion, are subject to taxation upon utilization. Deferred tax liabilities on such reserves are provided to the extent that such taxation will result from expected future distributions or other taxable events. Deferred tax assets, including tax loss carryforwards, are recognized when there is a reasonable certainty of their realization.

Research and Development

Research and development activities, primarily relating to various studies involving technological innovation, improvements to plant efficiency, reliability, safety, environmental protection, service quality, and use of energy resources, are charged to operating expenses as incurred. Amounts charged to operating expenses were lire 350 billion, lire 280 billion, and lire 240 billion for the years ended December 31, 1998, 1999 and 2000, respectively.

Foreign Currency

Transactions denominated in foreign currencies are translated to lire at the exchange rate in effect on the date of the transaction. At December 31, 2000, assets and liabilities denominated in foreign currencies have been translated into lire at the exchange rate on the balance sheet date. Foreign currency exchange gains and losses, both realized and unrealized, are included in income in the period they arise, net of any amounts absorbed by the Italian government. The only exception to this is for foreign currency exchange gains that exceed foreign currency exchange losses related to long-term assets or liabilities, which are recorded only when realized. For the years ended December 31, 1998, 1999 and 2000, there were no such unrealized net gains.

Assets and liabilities expressed in one of the currencies of the European Economic and Monetary Union Members as of December 31, 2000 are translated into lire using the appropriate fixed exchange rates in euro.

Financial Derivatives

With respect to interest rate, foreign exchange and price risks, the Company enters into derivative transactions to hedge specific transactions as well as to hedge general risk (see Note 22).

The interest differentials to be received or paid on interest rate swaps, as well as interest differentials on interest rate collars, are accrued over the life of the contract. The interest differentials on forward rate agreements are recognized at the date of settlement of the contract and accrued over the period hedged. Such interest rate differentials are recorded in "Accrued income and prepayments" or "Accrued expenses and other

current liabilities” as applicable in the consolidated balance sheets. When recognized in the statements of income, the amounts are classified as “Financial income (expense)”.

Foreign exchange forwards are valued at the spot rate at year-end and the related gains and losses are recorded as “Financial income (expense)”. Costs for options are recognized at the expiry date of the option. Premiums or discounts are accrued over the life of the contract, and also classified as “Financial income (expense)”. With reference to options, the premiums paid are recorded in the item “Accrued income, prepayment and other”, depending on the maturity of the contract.

Extraordinary Income and Expenses

The Company records items as extraordinary income and expenses if they relate to gains or losses on activities which impact the corporate structure of the Company (such as business re-organization costs, mergers and acquisitions, reconversions and reorganization of production cycle); extraordinary write-downs of fixed assets and related restatement of original value when the reasons for asset write-downs subsequently cease to exist; contingent assets or liabilities from events or transactions that would not reasonably be expected to recur in the foreseeable future, such as theft or shortage, natural events or litigation related to non-operating areas (e.g., mergers and acquisitions); and items regarding previous fiscal years, like adjustments of income/costs due to incorrect entries, adjustments due to incorrect applications of accounting principles and the recognition of capital grants related to previous fiscal years.

Environmental costs

Environmental costs refer to the avoidance, reduction and monitoring of the environmental impact of production activities. Recurrent environmental costs are recorded in the income statement in the year in which they are incurred, while costs relating to the extension of the useful life, increase in capacity and improvement in the safety of tangible assets to which they refer are recorded under the specific asset. Provisions for risks and charges are accrued when it is probable or certain that the cost will be incurred and its amount can be reasonably estimated.

(3) REGULATION AND RATES

The Company is subject to regulation by the Industry Ministry and the Energy Authority.

The Historical Regulatory Framework

The “Historical Regulatory Framework” existed until April 1, 1999, while the tariff structure under the Historical Regulatory Framework remained in place until December 31, 1999.

Electricity sales were regulated by tariffs which consisted of two main components:

1. A fixed component based on capacity; and
2. A variable component covering the following elements:
 - a) Fixed, operating and maintenance costs (excluding fuel and electricity import costs); it also covered specific and/or temporary reimbursement elements (e.g., accrued credits in respect of the previous years’ fuel costs, one-time costs relating to nuclear production and contributions for incentivized production from renewable and assimilated sources); and
 - b) Variable energy costs (including fuel and electricity import costs).

The tariff relating to b) above was reviewed by the Energy Authority in July 1997 (Decree No. 70 of June 26, 1997), which set the following rules:

- i. Fuel costs for thermal production were to be reimbursed on a standard basis instead of on an actual cost basis. In this respect a standard heat rate and a standard basket of fuel were fixed by the Energy Authority;
- ii. Every two months the tariff was changed as determined by price fluctuations in the standard basket of fuels and variances in exchange rates;
- iii. An incentive element to be included for any decrease in thermal production and electricity imports (as compared with the average of the corresponding two months period of the previous three years) and to encourage hydro and geothermal production; and
- iv. Electricity imports to be reimbursed on the same basis as thermal production.

The New Regulatory Framework

On April 1, 1999, Legislative Decree No. 79/1999 (the “Bersani Decree”), implementing the principles contained in the Electricity Directive issued in 1997 by the European Union, became effective. The Bersani Decree has commenced the transformation of the electricity sector from a highly regulated industry to one where energy prices charged by generators will be eventually determined by competitive bidding. The Bersani Decree also mandates the consolidation of electricity distribution activities in urban areas. It further provides for a gradual liberalization of the electricity market so that customers whose annual consumption exceeds specified amounts, together with distributors and wholesalers (all defined as “Eligible Customers”) will be able to contract freely with power generation companies to buy electric power.

The Energy Authority has also replaced the “cost-plus” system for tariffs with a new “price cap” tariff methodology. Under the price-cap methodology, tariffs will be reduced by a fixed percentage each year. This system creates incentives for operators to improve efficiency and gradually passes savings onto final customers.

The Bersani Decree establishes a general regulatory framework for the Italian electricity industry that gradually introduces free competition in power generation and sales to Eligible Customers while maintaining a monopoly structure for power transmission and physical distribution to Non-Eligible Customers. In particular, the Bersani Decree and subsequent implementing regulations:

- Liberalized, as of April 1, 1999, the generation, import and export of electricity as well as the sale of electricity to Eligible Customers;
- Provided that after January 1, 2003, no electricity company will be allowed to produce or import more than 50% of the total of imported and domestically-produced electricity in Italy and, in connection with this limit, mandated that the Company sell not less than 15,000 MW of its generating capacity by January 1, 2003;
- Distinguished between Eligible Customers, which may negotiate supply agreements directly with any domestic or foreign producer, wholesaler or distributor of electricity, and Non-eligible Customers, which must purchase electricity from the distributor that serves the area in which they are located and pay tariffs determined by the Energy Authority;
- Provided for the establishment of the Single Buyer, a central purchaser of electricity from producers on behalf of all Non-eligible Customers;

- Provided for the creation of a Borsa dell'Energia Elettrica, ("Pool Market") for electricity, in which producers, importers, wholesalers, distributors, other Eligible Customers and the Single Buyer will participate, with prices being determined through a competitive bidding process;
- Provided for the creation of the Gestore del Mercato, ("Market Operator"), charged with managing the pool market; and
- Provided that the transmission and distribution of electricity is reserved to the Italian government and in this respect:
 - Provided that management and operation of the national transmission network is licensed to an independent system operator, the Gestore della Rete, ("System Operator") while owners of the transmission network (including the ENEL Group) retain ownership of the network assets; and
 - Established a new licensing regime for electricity distribution and provided incentives for the consolidation of electricity distribution networks within each municipality.

The process of liberalizing the market foreseen by the Bersani Decree is highly complex. Certain of the actions required by the Bersani Decree have not occurred within the contemplated time periods and it is likely that a number of the deadlines noted above may not be met.

Generation

The Bersani Decree liberalized the regime of generation of electric power. In order to increase the level of competition in the market, the Bersani Decree provides that, by January 1, 2003:

- The ENEL Group, like any other generation company, will not be allowed to produce or import more than 50% of the total amount of electricity provided or imported in Italy. This will require a significant reduction from the Company's current share of the total amount of electricity produced or imported into Italy; and
- The Company will be required to sell not less than 15,000 MW of its gross installed capacity, so as to reduce its market share. To comply with this requirement, the Company developed a plan to dispose of 15,057 MW of net installed capacity, or approximately 16,000 MW of gross installed capacity, which the Company submitted to the Council of Ministers and which the Council approved in August 1999. These specific generating assets have been contributed to Eurogen S.p.A., Elettrogen S.p.A. and Interpower S.p.A. (the "Gencos") in 1999. The January 1, 2003 deadline is extendible for one year if market conditions require, as determined by the Antitrust Authority after consulting with the Energy Authority.

In response to the explicit instructions of the Italian Government to begin the process of disposing of the Gencos as soon as possible, the Company published a request for indications of interest in Elettrogen, the second largest of the three entities, in October 2000. The sale of Elettrogen is being organized as a multi-step auction, with the final buyer being selected on the basis of price, as well as certain other factors. The bidding instructions include certain limitations on the participation of entities that are fully or partially state-owned. It is currently expected that the disposition of Elettrogen will occur during the second half of 2001. The Company has also been required to sell a further 5,500 MW, within 90 days of the sale of the third Genco, by a decision of the Italian Antitrust Authority (in association with the Infostrada acquisition) which is nevertheless under appeal.

The Bersani Decree also requires the Italian government to adopt streamlined authorization procedures relating to the installation of new power generation plants and the renovation and expansion of existing plants.

Transmission

The Bersani Decree provides that the transmission of electricity is reserved to the Italian government, but delegates the management and operation of the national electricity transmission network to the System Operator, under a license to be issued by the Industry Ministry. The System Operator may, subject to the authorization of the Industry Ministry, authorize third parties to operate limited portions of the network pursuant to service agreements.

In August 1999, the Company transferred its electricity dispatching and national transmission network management operations to the System Operator, which at that time was a subsidiary of the ENEL Group. In April 2000, pursuant to the Bersani Decree, the Company transferred ownership of the System Operator to the Treasury at no cost. The System Operator operates pursuant to strategic and operational guidelines established by the Industry Ministry in January 2000. The System Operator has responsibility for the planning, operation and control of the national electricity transmission network, with a mandate to ensure the efficiency, adequacy and safety of Italy's electricity supply and equal access to the network for all producers and consumers of electricity. The System Operator must give priority for transmission to electricity generated from renewable resources and co-generation in accordance with guidelines to be issued by the Energy Authority.

The System Operator enters into service agreements with the owners of transmission assets based on a model agreement approved by the Industry Ministry. These agreements regulate the payment of fees and the performance of the obligations concerning the maintenance and upgrading of the national electricity transmission network, and includes the fees for services supplied by the owners of the network prior to the date of the agreement.

In addition, the Bersani Decree liberalized third-party access to power transmission and distribution networks as of April 1, 1999. The System Operator and distributors must grant free access to such networks to generators and importers of electricity for the purpose of supplying energy to Eligible Customers, subject to payment of the tariffs established by the Energy Authority.

Distribution

The principal effects of the Bersani Decree on distribution are:

- The formal adoption of a licensing regime applicable to the distribution of electricity; and
- The promotion of the consolidation of electricity distribution activities.

The Bersani Decree requires distribution companies to provide service to all customers who request it, subject to payment of applicable tariffs and to compliance with technical and safety requirements. In addition, the Bersani Decree requires distribution companies that serve more than 300,000 customers to conduct the distribution of electricity to Non-eligible Customers through separate companies that have such activity as their exclusive purpose. The Company began operating a separate subsidiary, Enel Distribuzione, for this purpose in October 1999.

The Bersani Decree aims at the consolidation of the Italian electricity distribution industry. It provides for the issuance of only one distribution license within each municipality and establishes procedures to promote the consolidation of distribution activities under a single operator in municipalities where both the ENEL Group and a local distribution company are engaged in electricity distribution. The Decree required operators with

overlapping operations to submit joint consolidation proposals to the Industry Ministry by March 31, 2000; these proposals are considered approved unless the Industry Ministry objects within 60 days.

If a joint consolidation proposal is not submitted, or is not approved by the Industry Ministry, a local distribution company owned or jointly owned by a municipality that serves at least 20% of the electricity customers of a municipality may request that the Company sell to them its distribution assets in that municipality at a price to be determined by agreement between the ENEL Group and that local distribution company. The Company estimates that approximately 160 municipal distributors qualify for this procedure.

To date, the Company has signed agreements for the sale of its local distribution network with A.C.E.GA.S. S.p.A., the municipally owned utility in Trieste, in March 2000; with A.M.P.S. S.p.A., the municipally owned utility in Parma, in December 2000; and with the utility company serving Rome in March 2001. In addition, the Company has received requests to sell its distribution networks from substantially all of the other qualifying distribution companies in municipalities with co-existing networks, including the companies owned by the municipalities of Milan, Turin and Verona.

The Bersani Decree provides that if the Company did not agree on a sale price with any of the parties who have made a timely request to purchase a distribution network, the price will be determined by an arbitration panel using accepted valuation methodologies that take into account market prices. The panel is to consist of one person nominated by each of the parties and a third person nominated by the President of the court having jurisdiction over the geographic area in which the local distribution company is located. To date, 16 of the qualifying companies have issued a formal demand for price arbitration, including the distribution companies in Milan, Turin and Verona. In the case of Milan, the arbitration panel set the sale price of the network at lire 820 billion and the Company has appealed this decision.

The distribution networks that the Company will be required to sell are more profitable than its distribution networks on average, mainly because distribution in metropolitan areas has lower costs. The Energy Authority has indicated that an equalization system will be put in place that may compensate for some or all the higher costs associated with serving non-urban areas. To date, the equalization system has not been put in place.

Under the Bersani Decree, local distribution companies owned or partly owned by a municipality that serve at least 100,000 customers may also request an authorization from the Industry Ministry to submit a joint proposal with the Company for the consolidation of their electricity distribution networks with the Company's networks in adjoining municipalities. Certain distribution companies have expressed their interest in purchasing the Company's electricity distribution networks in adjoining municipalities, particularly companies in Milan, Trieste, Modena and Brescia. The Company believes that, under the Bersani Decree, any such sale may occur only upon the agreement of each of the concerned parties.

New Tariff Structure

A new tariff established by the Energy Authority took effect on January 1, 2000. This new tariff structure regulates the price paid by Non-eligible Customers for electricity. Eligible Customers will pay the market price for electricity, as well as regulated transmission fees and system charges set by the Energy Authority. The Energy Authority has also established a mechanism for the recovery of a significant portion of the Company's stranded costs through the tariffs paid by the customers.

The new tariff structure has resulted in reductions in the Company's tariff revenues for the year 2000. These reductions are attributable to lower rates for generation, transmission and distribution fees. Further reductions in fees are expected in 2001 as a result of the application of the price cap mechanism to transmission and distribution charges and a 20% reduction in the fixed component of generation price established by the

Authority. See “–Tariffs for Non-eligible Customers” below. Further reductions in fees are expected in 2002 in connection with the commencement of trading on the Pool Market, for generation fees, and for the application of the price cap mechanism for the transmission and distribution charges.

Tariffs for Non-eligible Customers

Under the new structure, after an interim period during which tariffs for all Non-eligible Customers are set directly by the Energy Authority, only tariffs for residential customers will be set directly by the Energy Authority. This interim period ended at the beginning of July 2000; however, the Energy Authority extended it for the Company and certain other distributors until December 31, 2000. Tariffs for all other classes of Non-eligible Customers are set by distributors within certain limits established by the Energy Authority, though the Energy Authority still retains the right of approval.

The limits set by the Energy Authority on tariffs for non-residential customers are of two types. An aggregate limit sets the maximum amount of tariff revenues that each distributor will be allowed to receive from all customers belonging to the same category in a single year. A second limit sets the maximum amount of tariff revenues that any distributor will be allowed to receive from a single customer of a given category. If the limit is exceeded in any given year by less than 5%, the distributor will apply a proportional reduction of tariffs in the following year; if the limit is exceeded by more than 5%, each customer will receive reimbursements equal to the excess revenues (plus an additional bonus) in the following year. Compliance with the individual limit will be ensured at the time tariffs are set by the distributors and approved by the Energy Authority. Within these limits, each distributor is free to offer tariff options to its customers in accordance with a trade policy code aimed at ensuring transparency.

In setting tariffs for residential customers and establishing limits on tariffs for other classes of Non-eligible Customers, the Energy Authority has sought to allow the recovery by electricity suppliers of:

- The costs of supplying electricity, including both:
 - Operating costs of the generation, transmission and distribution activities, including procurement costs and amortization and depreciation. In order to be recovered, these costs must be both actually incurred by the electricity companies and recognized by the Energy Authority; and
 - An appropriate return on invested capital, covering both equity and debt financing; and
- The costs associated with system charges, which include the costs of complying with public policy requirements for the Italian electricity system together with the costs of the Market Operator and the Single Buyer.

Charges Applicable to Eligible Customers

Eligible Customers purchase electricity directly from generators or from wholesalers and as a result may pay rates that differ from the generation fees paid by Non-eligible Customers. In general, Eligible Customers will only pay transmission and distribution fees and system charges, which they will pay directly to wholesalers or distributors that will in turn pay the fees to the System Operator.

Stranded Costs

Stranded costs are current costs deriving from contractual commitments or investment decisions that electricity companies:

- Undertook for reasons of public policy;
- Undertook at a time when the electricity markets were not yet open to competition; and
- Could have been recovered in a monopoly regime but could not 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 minimize the impact of those costs (and, hence, the amount of the refund) on their future operations; and
- They present an industrial plan showing a long-term profitability of the activity that is charged with stranded costs.

The Company's stranded costs mainly consist of costs resulting from the requirements that were imposed in the past on the Company's generation plants. In particular, because of governmental policies, the Company built most of its plants to ensure high flexibility in the type of fuel that could be used.

The Industry Ministry and the Treasury Ministry have determined which costs are to be considered as stranded costs and established a system to recover them. Commitments for investments the Company undertook prior to February 19, 1997 relating to generating plants currently in service are regarded as stranded costs, except for investments in plants that benefit from the CIP 6 regime and for hydroelectric and geothermal plants. Under the recovery program adopted by the Industry Ministry in January 2000 and as amended in April 2001, the Company will be allowed to recover a significant portion of its stranded costs between 2000 and 2006.

The Energy Authority will assign recognized revenues and a reference level of production to each of the Company's plants. Recognized revenues are based on operating costs, depreciation and a fair return on investment. During the recovery period, the Energy Authority will, at the end of each year, compare these recognized revenues for each plant with the fixed costs recovered through the pool price. If the recognized revenues are higher in aggregate than those fixed costs, the Company will be entitled to recover an amount equal to the difference. Pending the implementation of the Pool Market, by a decision issued in May 2001, the Energy Authority established a formula for the calculation of the electricity price and of plants' variable costs for the purposes of recovering stranded costs. Stranded costs are financed in part through the surcharge levied by the Energy Authority on hydroelectric and geothermal producers.

If plants for which stranded costs have been recognized are sold, the purchasers are entitled to recover those costs on the same terms, so that total stranded costs available for recovery by the Company and new owners will not be higher than those available to the Company had the plants not been sold. With respect to the sale of Elettrogen, in a decision issued in May 2001, the Energy Authority determined the values of recognized revenues and reference level of production necessary to calculate Elettrogen's stranded costs recoverable for the year 2000.

The Company's contractual obligations in connection with its imports of liquefied natural gas from Nigeria are also regarded as stranded costs. These stranded costs will be recovered over a ten-year period, which may be extended if certain conditions are satisfied.

The maximum total amount available to Italian electricity companies for recovery as stranded costs is lire 15,000 billion. The plan for the recovery of stranded costs must be submitted by the Italian Government for approval by the European Commission to ensure compliance with the Electricity Directive and with the European Union's rules on governmental assistance to private businesses.

During the recovery period, the impact of these stranded cost surcharges on the tariffs paid by consumers will be partially offset by contributions paid to the System Operator from generating companies producing electricity from hydroelectric or geothermal plants, which do not incur fuel costs. These contributions are calculated every two months as a percentage of the difference between the average national wholesale price of electricity (weighted by the quantity of electricity produced by each plant) during the two-month period, and the average fixed unitary costs for each plant, determined on an annual basis. The percentage will decrease in each of the three two-year periods between 2001 and 2006, when the contributions will be eliminated.

(4) RECEIVABLES

Receivables are stated at their net realizable value and relate primarily to amounts due for the supply of electricity and services, and also include amounts to be billed. The following table shows a breakdown of receivables as of December 31, 1999 and 2000:

	<u>1999</u>	<u>2000</u>
	(billions of lire)	
Electricity and services	5,914	7,163
Allowance for doubtful accounts:		
Ordinary provisions	(302)	(327)
Provision for overdue interests	(108)	(96)
	-----	-----
	5,504	6,740
Other	2,966	3,662
	-----	-----
	8,470	10,402
	=====	=====

The increase in receivables from electricity and services is due to a number of factors, among which the most important are represented by receivables relating to electricity transported on the distribution and national networks (following the restructuring of the electricity market), higher amounts invoiced to customers due to the increase in the fuel cost tariff component and the offer of new services.

The other receivables mainly include advances to suppliers, prepaid taxes, tax receivables and receivables from social security institutions. The increase is due mainly to the payment of margin deposits against derivative contracts carried out by Enel.FTL and advances paid on electricity surtax. Additionally, following the establishment of Enel.Factor, receivables have further increased.

(5) EQUALIZATION FUND RECEIVABLE

The purpose of the Cassa Conguaglio per il Settore Elettrico (the "Equalization Fund") is to ensure that the cost of fuel and electricity purchased by the electricity companies are generally transferred to customers as a tariff component. The tariff also provides incentives for generation of electricity from renewable sources.

These incentives are collected from the customers by the utility companies and then remitted to the Equalization Fund, which in turn distributes these amounts in the form of Equalization Fund contributions to the electricity generating companies. In 1999, the Equalization Fund also provided for the reimbursement of certain nuclear-related costs.

As of December 31, 1999 and 2000, the Equalization Fund receivable net were as follows:

	<u>1999</u>	<u>2000</u>
	(billions of lire)	
Equalization Fund receivable	2,828	6,626
Current portion of Equalization Fund		

receivable for nuclear-related costs	96	-
Equalization Fund payable, related to amounts collected from customers	(2,564)	(3,118)
	<u>360</u>	<u>3,508</u>

The increase in 2000 relates to higher Equalization Fund reimbursement for fuel costs. The reimbursements are based upon the increased fuel costs as well as a new contribution established January 1, 2000, to ensure a gradual transition to the new tariff system, for Non-eligible customers (amounting to lire 6 per Kwh).

Receivables from the Equalization Fund for nuclear related charges have, in prior years, been presented net of an allowance for doubtful accounts due to outstanding litigation with the Authority for Electricity and Gas for the annulment of resolution no. 58, dated June 12, 1998, through which the Authority questioned criteria for the reimbursement of certain nuclear charges. The Authority's resolution no. 58 was originally appealed by the Company to the Lombardy Regional Court (TAR), whose ruling no. 612 dated February 18, 1999 accepted a considerable part of the Company's claims, recognizing ENEL's right to receive an amount equal to lire 279 billion (excluding interest), leaving the remaining lire 111 billion to be borne by the Company. The Company subsequently appealed the Lombardy Regional Court decision to the State Council, in an attempt to collect the full amount. In 2000, an amount of lire 309 billion, inclusive of interest earned, was paid to the Company by the Equalization Fund for these costs and with a ruling dated February 12, 2001, the State Council rejected the Company's appeal, confirming the ruling of the Lombardy Regional Court. At December 31, 2000, all related receivables and reserves have been written-off and the lire 309 billion has been recorded as extraordinary income (see Note 20).

(6) INVENTORIES

Inventories as of December 31, 1999 and 2000 were as follows:

	<u>1999</u>	<u>2000</u>
	(billions of lire)	
Fuel	876	1,477
Materials, supplies and other stocks ...	380	667
Civil buildings held for disposal.....	622	626
Work in progress	66	254
Advances	-	174
	<u>1,944</u>	<u>3,198</u>

The increase in the value of fuel is due to higher international oil prices and to the recording, starting in 2000, of inventories purchased and not delivered at the end of the year.

Materials increased during 2000 due to parts being put back into inventory from abandoned investment projects.

"Civil buildings held for disposal" refer to the subsidiary Dalmazia Trieste S.p.A. and those buildings have been the object of a specific independent appraisal.

The increase in contract work in progress and of advances is due to the increase of contract work carried out for third parties referring in particular to Enelpower's new initiatives in international markets.

(7) UTILITY PLANT

Net utility plant as of December 31, 1999 and 2000 consisted of the following:

	1999	2000
	(billions of lire)	
<u>Utility plant, gross:</u>		
Generating Plant:		
Hydroelectric.....	17,378	17,839
Thermal.....	42,719	43,690
Geothermal and renewable sources.....	2,978	3,154
Transmission Line.....	11,494	11,757
Distribution Network.....	62,697	64,479
Land and Buildings.....	6,508	7,015
Other.....	4,850	5,029
Construction in progress.....	6,756	3,922
Total	155,380	156,885
<u>Accumulated Depreciation:</u>		
Generating Plant:		
Hydroelectric.....	6,364	6,941
Thermal.....	21,882	23,659
Geothermal and renewable sources.....	1,360	1,546
Transmission Line.....	5,089	5,477
Distribution Network.....	42,430	45,226
Land and Buildings.....	1,372	1,789
Other.....	3,472	3,038
Construction in progress.....	-	-
Total	81,969	87,676
<u>Utility plant, net:</u>		
Generating Plant:		
Hydroelectric.....	11,014	10,898
Thermal.....	20,837	20,031
Geothermal and renewable sources.....	1,618	1,608
Transmission Line.....	6,405	6,280
Distribution Network.....	20,267	19,253
Land and Buildings.....	5,136	5,226
Other.....	1,378	1,991
Construction in progress.....	6,756	3,922
Total	73,411	69,209

As of January 1, 2000, the depreciation rate of the information system equipment increased from 20% to 34% as a result of the technology evolution that has continued to occur. This rate change increased depreciation by approximately lire 40 billion.

As of December 31, 2000, plants include assets to be relinquished, primarily Hydroelectric, with a net book value of approximately lire 6,000 billion. Italian laws (Decree 79/99 applying European Commission Directive 92/62 regarding the electricity market) established the expiry date for concessions relating to large reservoirs managed and operated by the Company. The concessions will run out thirty years after the decree becomes effective, thus in 2029. Moreover Law n. 340 dated November 24, 2000 extended to 2020 concessions regarding State property used for thermal generation activities. At such dates, all water catchment plant, control equipment, high pressure pipes and drainage pipes must be transferred to the State in good working order if the concession is not renewed. Therefore, the depreciation of the assets to be relinquished has been calculated on the basis of the lower between the length of the concession and the residual useful life of the assets.

The same decree also provides for the region Valle d'Aosta and for the autonomy provinces of Trento and Bolzano the possibility to choose a different expiry date; particularly, the autonomy provinces of Trento and Bolzano have fixed the expiry date in 2010, while the region of Valle d'Aosta has not fixed the expiry date yet. In any case all the generation plants and equipment located in Valle d'Aosta are going to be sold to the Regional Authority during the year 2001.

The following reflects changes in utility plant (billions of lire):

	December 31, 1998				December 31, 1999				December 31, 2000	
	<u>Net book value</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Reclassification and retirements</u>	<u>Net book value</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Reclassification and retirements</u>	<u>Net book value</u>	
Generating plant:										
Hydroelectric.....	11,264	145	(490)	95	11,014	95	(544)	333	10,898	
Thermal.....	21,173	739	(1,788)	713	20,837	300	(1,830)	724	20,031	
Geothermal and other renewables	1,226	51	(153)	494	1,618	48	(193)	135	1,608	
Transmission line.....	5,652	142	(408)	1,019	6,405	116	(416)	175	6,280	
Distribution network.....	20,423	2,720	(2,780)	(96)	20,267	2,630	(2,919)	(725)	19,253	
Land and buildings.....	5,983	68	(179)	(736)	5,136	36	(190)	244	5,226	
Other.....	2,224	169	(351)	(664)	1,378	300	(313)	626	1,991	
Construction in progress.....	7,742	1,619	-	(2,605)	6,756	1,154	-	(3,988)	3,922	
	-----	-----	-----	-----	-----	-----	-----	-----	-----	
Total.....	75,687	5,653	(6,149)	(1,780)	73,411	4,679	(6,405)	(2,476)	69,209	
	=====	=====	=====	=====	=====	=====	=====	=====	=====	

Retirements include the abandonment of already suspended projects in the electricity generation area for an amount of approximately lire 2,000 billion in 2000. The related expense was covered in full by amounts accrued in the past in the litigation and contingent liabilities reserve for these suspended projects.

Estimated liabilities and charges resulting from the eventual abandonment of the residual currently suspended construction projects are covered by the same reserve.

(8) INTANGIBLE ASSETS

At December 31, 2000, intangible assets include primarily the extraordinary contribution relating to the elimination of the Pension Fund for the employees of ENEL and other private electricity companies, due pursuant to Law no. 488, December 23, 1999 (2000 Budget Law). Based on the amount of the first installment, ENEL's total contribution is quantified at lire 3,942 billion, expensed on a straight line basis over a period of 20 years, as allowed also by the above mentioned Budget Law. Liabilities include lire 2,628 billion representing the above amount, net of the first installment payment made to INPS in November 2000. The two residual

installments will be paid out in November 2001 and 2002, respectively; consequently, lire 1,314 billion has been recorded among current liabilities and lire 1,314 billion among non-current liabilities.

Intangibles also include the goodwill paid for the acquisition of CHI (lire 181 billion) and various gas distribution companies (lire 150 billion). The latter is amortized over a period of 10 years, in line with the average residual life of the concessions for the distribution of gas, while CHI goodwill has not been amortized in 2000 due to the fact that the acquisition took place in December 2000.

(9) INVESTMENTS

Investments as of December 31, 1999 and 2000 are as follows:

	<u>1999</u>	<u>2000</u>
	(billions of lire)	
Investments in unconsolidated subsidiaries	458	1,511
Investments in affiliates	2	349
Investments in other companies	7	300
	----	----
	467	2,160
	====	====

The investments in unconsolidated subsidiaries primarily relate to WIND. The increase is a result of additional capital contributions of lire 663 billion that were approved at the extraordinary shareholders' meeting of WIND (April 20, 2000) as well as the acquisition of an additional 5.63% interest in July 2000 for lire 1,199 billion following the divestment from Deutsche Telekom. These amounts were offset by lire 776 billion of equity losses and goodwill amortization of lire 37 billion during the year.

Investments in affiliates include a 49% ownership in Immobiliare Foro Bonaparte (lire 259 billion) following the contribution of real estate property.

The increase in investments in other companies is primarily due to the acquisition of 7.92% of Echelon Corporation, a U.S. listed company that is a leader in the development of indoor communications technology and related services. The aim of the operation is the application of Echelon's *Lonworks system* in the long distance metering project denominated "electronic meter". The book value at December 31, 2000 is lire 225 billion and is represented by the purchase price of lire 293 billion less a reduction in the value of the investment of lire 68 billion, as a result of the negative performance of Echelon's stock on NASDAQ, consistent with the recent trend of other technology stocks.

Other unconsolidated investments primarily include venture-capital and minor investments in entities involved in various technological, environmental, and other utility-related research and development areas.

(10) RECEIVABLE FROM UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES

Receivables from unconsolidated subsidiaries include a loan amounting to lire 906 billion extended to WIND, at a rate of interest equal to the three-month Euribor rate plus 50 basis points. Such amount represents a

portion of a loan amounting to approximately lire 4,000 billion, underwritten by ENEL and a pool of banks, for the acquisition of a UMTS mobile phone license. Any early repayment of the loan extended by ENEL is subordinate to the repayment in full of the loans extended by banks.

(11) DEBT

Long-Term Debt

The Company's consolidated long-term debt balances, including current maturities, as of December 31, 1999 and 2000, and the related maturity schedules are as follows:

Summary by Type of Debt Instrument	Maturity Range	Balance at 12/31/1999	Balance at 12/31/2000	Current Maturity 2001	Long-term Maturity					
					2002	2003	2004	2005	After	Total
		2	0		(billions of lire)					
Fixed – rate listed bonds	2004-2008	4,872	5,325	-	-	-	1,937	1,452	1,936	5,325
Floating - rate listed bonds	2001	4,785	2,703	2,703	-	-	-	-	-	-
Fixed - rate bonds not listed.....	2005	85	93	-	-	-	-	93	-	93
Floating - rate bonds not listed.....	2001-2021	3,230	3,030	32	43	35	40	41	2,839	2,998
Fixed – rate bond UE...	2001-2010	781	615	104	104	104	73	75	155	511
Floating - rate bonds UE	2003-2009	56	48	9	8	8	6	6	11	39
Fixed – rate bank loans.....	2001-2008	150	163	109	10	12	11	9	12	54
Floating - rate bank loans.....	2001-2009	4,164	4,400	403	463	1,703	1,192	535	104	3,997
Fixed – rate UE Loans..	2001-2009	1,933	1,365	535	354	153	88	71	164	830
Floating rate UE Loans	2004-2015	643	1,516	95	95	95	108	112	1,011	1,421
Other financings.....	2003-2022	-	204	13	14	61	10	10	96	191
Total		20,699	19,462	4,003	1,091	2,171	3,465	2,404	6,328	15,459

Bonds include lire 3,218 billion guaranteed by the Republic of Italy (lire 5,339 billion at December 31, 1999). The decrease in long-term debt of lire 1,237 billion is a result of principal repayments of lire 5,154 billion, which were offset by new borrowings of lire 3,700 billion, exchange rate losses of lire 5 billion and lire 212 billion representing the debt of the newly consolidated subsidiaries (CHI and gas companies). Repayments refer to debt expiring in the year and early repayments made to improve the risk/cost profile of debt. A number of bank loans have been renegotiated to bring them into line with current market conditions. In November 2000, lire 1,000 billion of ENEL 1993-2003, 9.6% bonds were repaid early.

In 2000, the Company entered into a euro 500 million 15-year loan with the European Investment Bank. In 2001, the Company entered into a second loan for an additional euro 500 million. The loans will contribute to the financing of the development of the Company's distribution network in central and southern Italy.

In 2000, ENEL launched a medium-term notes program for a total of euro 3 billion. As part of such program, on November 28, 2000, ENEL issued euro 750 million (lire 1,452 billion) of fixed-rate bonds (5.875% annual) due on December 12, 2005. These bonds are listed on the Luxembourg Stock Exchange.

Long-term debt, including maturities, by currency, is as follows:

<u>Currency</u>	<u>Maturity</u>	<u>Average Interest rate</u>	<u>At December 31, 1999 (billions of lire)</u>	<u>Average Interest rate</u>	<u>At December 31, 2000 (billions of lire)</u>
Italian lira	2001-2021	4.27%	12,398	5.38%	9,006
Euro	2001-2015	4.68%	7,147	5.28%	9,417
Deutsche Mark	2001-2010	7.77%	163	8.02%	96
French Franc	2002-2005	9.86%	91	9.86%	96
Belgian Franc	2001-2008	9.05%	148	9.06%	105
Netherlands Guilders ...	2001-2010	8.41%	187	8.41%	127
EMU Currency		4.55%	20,134	5.41%	18,847
U.S. Dollar	2001-2008	9.02%	79	9.01%	247
British Pound	2002-2007	10.05%	60	9.75%	40
Swiss Franc	2001-2009	6.82%	179	6.93%	149
Denmark Krone	2002	10.55%	9	10.55%	6
Japanese Yen	2001-2010	5.67%	238	5.57%	173
Non - EMU Currency ...		7.04%	565	7.60%	615
Total Long - Term Debt		4.62%	20,699	5.48%	19,462

As of December 31, 2000, approximately 61% of the Company's long-term debt was linked to floating-rates (62% as of December 31, 1999). To balance this mix, the Company entered into interest rate hedging contracts, primarily interest rate swaps and interest rate collars. Considering the above mentioned hedging contracts, appropriately weighing the notional amount of the collars, the residual amount of debt still exposed to the risk of floating-rates was approximately 28% of the total long-term debt at December 31, 2000.

Short-term Debt

The Company maintains committed revolving lines of credit with maximum borrowing limits aggregating lire 21,361 billion and uncommitted lines of credit and other short-term borrowing agreements with banks in Italy with maximum borrowing limits aggregating approximately lire 6,990 billion at December 31, 2000. These agreements provide for interest charges based on prevailing market conditions. As of December 31, 1999 and 2000, the average interest rate on short-term borrowings was approximately 3.50 % and 4.67%, respectively.

Short-term bank debt includes 18-month loans amounting to lire 1,983 billion and the use of revolving credit lines amounting to lire 3,226 billion. The increase in short-term debt is due to higher uses of short-term credit lines that allow more flexibility to the Company in managing debt, by giving it a more adequate financial structure in view of the expected proceeds coming from the disposal of assets.

Among the most significant short-term transactions carried out in 2000 was the agreement with a pool of banks of an euro 10 billion revolving credit line, which was partially used to finance the acquisition of Infostrada.

(12) RESERVE FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31, 2000 an amount of lire 760 billion represents the present value of future liabilities connected with trade union agreements regarding a supplemental pension fund for managers participating in the program. Since April 1, 1998, the reserve relates only to retired managers. Those managers currently employed, are covered by the FONDENEL Fund. In the last quarter of 2000, the Company reached an agreement with the majority of the participants to the plan for an early payment of the provision.

The remaining reserve of lire 39 billion covers payments in lieu of notice at the time of the retirement, to existing employees who have, among other conditions, worked at least 35 years, in accordance with collective labor contracts and current union agreements.

The agreement between the ENEL Group and FNDAI (National Federation of Industrial Managers), signed on January 23, 1998, led to the establishment of a Company-sponsored pension fund known as FONDENEL, which is managed externally. It differs from the previous pension plan, which was based on defined benefits, in that it is now a defined-contribution plan. Following the transfer of the accumulated contributions of active managers to FONDENEL, the Company was liable to pay FONDENEL a sum equal to the provisions accrued to March 31, 1998. The amount payable to the FONDENEL Fund as of December 31, 2000, totaling lire 203 billion is reflected in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets and is to be paid in two installments of which the second is due on July 1, 2001.

(13) OTHER NON - CURRENT LIABILITIES

The amounts included in the caption "Other" in "Other non-current liabilities" in the accompanying consolidated balance sheets as of December 31, 1999 and 2000 were as follows:

	<u>1999</u>	<u>2000</u>
	(billions of lire)	
Litigation and contingent liabilities reserves ..	2,588	1,704
Reserve for early retirement.....	563	335
Reserve for stranded costs.....	-	227
Due to FONDENEL Fund.....	211	-
Advances.....	246	28
Other	415	1,558
	<u>4,023</u>	<u>3,852</u>

The "Litigation and contingent liabilities reserves" include lire 727 billion to cover uncertainties, contingencies and potential liabilities from current legal proceedings (primarily relating to supply contracts, labor disputes and plant operations) of a determinate nature that, according to Parent's internal and external legal advisors are reasonably estimable and which the Company believes the unfavorable outcome to be probable. An additional amount of lire 91 billion has been accrued in 2000. The reserve does not take into account the effects of proceedings in which a favorable outcome is expected or those in which an adverse outcome cannot be reasonably estimated. For contingencies assessed to be less than probable the potential range of loss is disclosed if it is available. Further information regarding litigation and contingent liabilities is provided in Note 22.

The reserve also covers additional estimated liabilities and charges for litigation and other matters for lire 783 billion (of which lire 450 billion was accrued in 2000) and potential charges and losses in connection with the abandonment or change of plans relating to currently suspended investment projects for lire 194 billion. The provision for suspended investments was lire 1,388 billion as of December 31, 1999 and the use relates to the coverage in full of costs incurred following the abandonment in 2000 of a number of relevant projects in the generation area (see Note 7).

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

In 2000, the Company recognized reserves aggregating lire 227 billion related to its recovery of so-called "stranded costs". The individual companies of the Group made an estimate of their recovery requirements according to elements contained in the Ministerial Decree dated January 26, 2000 and in the "Note" issued by the Authority on August 3, 2000. These calculations represented estimates as final reference parameters were not given by the Authority. The individual companies recorded reserves in situations where actual revenues exceeded the related estimated revenues allowed by the Authority. The amount accrued refers to Eurogen (lire 196 billion) and Enel Produzione (lire 31 billion) and considers the difference between estimated recognized revenues for each plant involved and an estimate of revenues calculated according to both actual energy generated for the period and the average wholesale price of electricity. Calculations also included the estimate of the amount reimbursed against the extra costs involved with the import of natural liquefied gas from Nigeria.

"Other" items include lire 1,314 billion due to the National Pension System (INPS) on November 2002 as the last installment of the extraordinary contribution established by the Budget Law 1999 (see Notes 8 and 12).

(14) SHAREHOLDERS' EQUITY

Share Capital

In connection with the conversion of the Parent Company into a joint stock corporation in July 1992, substantially all of the existing reserves at that time were converted into share capital.

The Parent Company has 12,126,150,379 ordinary shares of lire 1,000 par value per share.

At December 31, 2000, according to the Shareholders' Register and information available, there do not appear to be shareholders with a share higher than 2% of the capital stock of the Company, other than the Italian Treasury (with approximately 68% of the capital stock).

Shareholders' Equity Reserves

The "Legal reserve" represents earnings restricted from the payment of dividends pursuant to the Italian Civil Code (the "Civil Code"). Under the Civil Code, with respect to income of any year, an amount equal to 5% of the Company's statutory income must be set aside until the cumulative legal reserve is equal to one-fifth of the par value of the Company's issued and outstanding share capital. Such dividend restriction also applies to each Italian subsidiary of the Company, the legal reserve of which is not material. In 1999, lire 2,071 billion were transferred to the legal reserve from the "Law 292/93 reserve" in order to bring the former in line with 20% of the Group's holding company share capital, as resolved by the Shareholders' Meeting held on September 3, 1999.

The "Law 292/93 reserve" at December 31, 2000, reflects the write-up of assets of the Parent pursuant to Law No. 292. As discussed in Note 2, revaluation reserves of the Parent prior to 1993 have been credited to retained earnings in the accompanying consolidated financial statements. This reserve was decreased by lire 4,571 billion in 1999 following the distribution of lire 2,500 billion and the transfer to the legal reserve of lire 2,071 billion, as resolved by the sole shareholder of the Company at the Shareholders' Meeting held on September 3, 1999.

Retained Earnings

As provided by Italian law, dividends may only be paid out of the statutory retained earnings, plus its distributable reserves and statutory net income for the current year, net of the amount to be allocated to the legal reserve in the subsequent year. Approximately lire 7,400 billion was available for dividends at December 31, 2000.

Reconciliation of Parent's Statutory Net Income and Shareholder's Equity to Consolidated Net Income and Shareholders' Equity

The Parent's statutory financial statements reflect certain tax-basis amounts and do not reflect the consolidation of the Subsidiary Companies.

Adjustments are made in consolidating the accounts of the Parent and the Subsidiary Companies to reflect the consolidation principles described in Note 2. In addition, adjustments are made to eliminate the effect of certain tax-basis reporting applied by the Parent and the Subsidiary Companies in their respective statutory accounts.

The reconciliation of shareholder's equity and net income as reported in the statutory financial statements to those reported in the consolidated financial statements, is as follows:

	Net Income			Shareholder's Equity		
	1998	1999	2000	1998	1999	2000
	-			-		
	(billions of lire)					
Per Parent Statutory financial statements	2,072	3,052	437	27,686	24,352	21,976
Deferred taxes.....	829	(829)	-	829	-	-
Items reported by Parent Company solely for tax purposes.....	1,393	900	955	7,349	318	1,224
Effects of consolidating the financial statements of the Subsidiary Companies and other.....	(8)	1,418	2,844	16	9,364	12,257
Per consolidated financial statements	4,286	4,541	4,236	35,880	34,034	35,457

Starting from 1999, the Company began to record deferred tax assets also in the statutory financial statements.

Changes in tax-related items of the Parent are due to the contribution of businesses at book value (represented in the case of assets by their gross value, net of ordinary and additional depreciation charges), in a neutral tax regime. The mentioned tax items have therefore been transferred to the subsidiaries receiving the contribution, and have been included among the "effects of the consolidation of the financial statements of subsidiaries" at December 31, 1999 and 2000. Tax entries of the Parent Company as of December 31, 2000 mainly refer to the write-downs of investments in subsidiaries recorded only for tax purposes.

(15) OPERATING REVENUES

Operating revenues for the years ended December 31, 1998, 1999 and 2000 were as follows:

	1998	1999	2000
	-	-	-
	(billions of lire)		
Sales of electricity.....	25,681	26,419	24,757
Equalization Fund contributions	12,063	11,772	18,932
Other:			
- Connections, inspections and repositioning services.....	1,090	1,124	1,223
- Other operating revenues.....	954	1,269	3,706

Total other.....	2,044	2,393	4,929
	-----	-----	-----
	39,788	40,584	48,618
	=====	=====	=====

Revenues from sales of electricity declined in 2000 due to lower quantities sold following the opening up of the market and the reduction of tariffs from January 1, 2000.

The amounts included in Equalization Fund contributions for the years ended December 31, 1998, 1999, and 2000 were as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
	-	-	-
	(billions of lire)		
Contributions for thermal generation to the non-eligible customers markets.....	6,951	6,324	10,392
Contributions for overseas net purchase of electricity.....	1,978	1,897	1,599
Contributions for domestic purchases and incentives for renewable energy sources	3,134	3,551	6,066
Contributions for power generation to the non eligible customers (Decree 205/99)	-	-	875
	-----	-----	-----
	12,063	11,772	18,932
	=====	=====	=====

The Equalization Fund contributions increased in 2000 by lire 7,160 billion primarily due to the increase in fuel prices, increased domestic purchases and a new contribution as a result of generation related to non-eligible customers (lire 6 for each kWh produced for the non-eligible customers, excluding generation from plants under CIP 6/92 incentives).

Other operating revenues increased principally due to energy transmission fees (lire 1,881 billion) relating to the use of the Transmission and Distribution network. Such revenues did not exist in 1999 as they relate to the new structure of the electricity market. The contribution of new businesses to the increase in operating revenues during 2000 is as follows:

- Fuel trading activities, lire 154 billion;
- Distribution of natural gas, lire 124 billion;
- Engineering and contracting, lire 135 billion; and
- Research activities financed by the Equalization Fund, lire 128 billion.

In 2000, sales in countries other than Italy amounted to lire 187 billion, of which lire 110 billion was to EU countries and lire 68 billion in the Middle East.

(16) PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 1998, 1999 and 2000 were as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
	-	-	-
	(billions of lire)		
Wages and salaries	5,411	5,076	4,776
Social security contributions	1,732	1,552	1,337
Employee termination indemnities	484	462	421
.....			
Employee pension and similar obligations	138	55	42
Other costs	260	257	261
	-----	-----	-----
	8,025	7,402	6,837
	=====	=====	=====

The decrease from 1999 is a result of the reduction in the average headcount and in social contributions, effective January 1, 2000.

(17) MATERIALS AND CONSUMABLES

Materials and energy for the years ended December 31, 1998, 1999 and 2000 were as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
	-	-	-
	(billions of lire)		
Electricity purchased	6,306	6,831	8,467
Fuel consumption.....	6,663	6,308	10,929
	-----	-----	-----
Total fuel and energy	12,969	13,139	19,396
Materials purchased	1,321	1,492	1,693
Net change in inventory	264	34	(287)
.....			
	-----	-----	-----
Total materials	1,585	1,526	1,406
Gas for distribution and fuel for trading..	-	-	237
	-----	-----	-----
	14,554	14,665	21,039
	=====	=====	=====

Electricity purchases increase in 2000 despite the decrease in quantities purchased due the lower proportion of imports, characterized by lower unit prices, resulting from the assignment of import quotas to other operators, and to higher purchases from subsidized domestic producers (CIP regulation 6/92).

The increase in the cost of thermal fuel consumption reflects higher fuel prices and thermal production.

(18) SERVICES AND RENTALS

Services and rentals for the years ended December 31, 1998, 1999 and 2000 were as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
		(billions of lire)	
Electricity transmission fees.....	-	63	1,855
Maintenance and repairs	594	570	602
Services from WIND.....	-	192	572
Other services.....	1,152	1,181	1,271
	-----	-----	-----
Total Services	1,746	2,006	4,300
	-----	-----	-----
Rentals and Leases	477	512	449
	-----	-----	-----
	2,223	2,518	4,749
	=====	=====	=====

The increase in the cost of services in 2000 relates essentially to the restructuring of the electricity sector and the spin-off of telecommunications activities into WIND, effective in July 1999. Electricity transmission fees, not present in 1999, amounted to lire 1,599 billion, while fees for the access and use of the transmission network borne by generation companies amounted to lire 256 billion. The first were paid by Enel Distribuzione and Enel Trade to the System Operator, that in turn paid these amounts to Terna for the respective part. The second type of charge represents the surcharge due to the System Operator for the transport of energy generated from renewable sources to be sold on the free market, pursuant to regulation 201/00 of the Authority. Such surcharge is motivated by the higher proportion of hydroelectric and geothermal energy destined to the free market as compared to the franchise market.

The cost of services supplied by WIND is offset in part by the reduction in other cost items, which, prior to June 30, 1999, included all internal telecommunications service costs.

(19) FINANCIAL INCOME AND EXPENSES

Financial income for the years ended December 31, 1998, 1999 and 2000 was as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
		(billions of lire)	
Interest on Equalization Fund receivable for nuclear-related charges	105	58	-
Interest on overdue receivables from customers	74	56	58
....			
Interest on bank account	116	26	11
Interest on social security relief receivables	63	49	34
.....			
Other	166	167	186
	-----	-----	-----
	524	356	289
	=====	=====	=====

Financial expense for the years ended December 31, 1998, 1999 and 2000 was as follows:

<u>1998</u>	<u>1999</u>	<u>2000</u>
	(billions of lire)	

Interest and other charges on bonds	984	725	745
Interest and other charges on loans from banks and other financial institutions	870	433	384
Interest on short term debt from banks and other financial institutions	35	23	195
Other	115	306	221
	-----	-----	-----
	2,004	1,487	1,545
	=====	=====	=====

Net financial expenses increased by lire 125 billion in 2000, due mainly to the growth in average financial debt, increasing from lire 21,370 billion in 1999 to lire 24,138 billion in 2000, and to the higher interest rates (the average 6-month Euribor rate increased from 3.05% in 1999 to 4.55% in 2000). The impact of such factors was reduced by the restructuring of the debt portfolio in the year.

(20) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income in 2000 primarily included:

- The collection of lire 309 billion following the settlement of litigation on the reimbursement of certain previously incurred nuclear charges (see Note 5);
- The collection of lire 117 billion relating to the settlement of certain claims arising from the Vajont disaster litigation. After several years of negotiations, a final agreement was reached in July 2000 between the Italian State, the Company and Montedison, the parties responsible for damages caused by the Vajont dam catastrophe, to settle all outstanding claims;
- Capital gains on the disposal of assets (primarily represented by the distribution networks in the towns of Parma and Trieste) for lire 136 billion; and
- The retrieval of previous years' taxes amounting to lire 110 billion.

These extraordinary income items were offset in part by:

- Early retirements incentives offered to personnel for lire 197 billion; and
- Accrued cost of lire 151 billion related to the incentive program for personnel, recorded in the year to which the incentive refers.

Extraordinary expenses in 1999 primarily included:

- A provision of lire 792 billion relating to two different early retirement programs available for employees and managers. The manager plan was opened in May 1998 and was directed at individual managers. The employee program is open between July 1999 and December 2001. Both programs allowed for a one-time payment of salary for a certain number of months based upon plans' formula ;

- A write-down of lire 172 billion to reflect certain real estate assets, that were transferred to a consolidated subsidiary in anticipation of their eventual disposal, at their estimated fair values. An appraisal report was prepared in 1999 to determine these fair values;
- A provision of lire 180 billion relating to below-market swap and swap-option contracts, to cover interest rate risk, that were restructured during 1999;
- A provision of lire 100 billion principally for a construction project halted by management and for which provisions have been recorded in prior years. Because the probability of a sale of this project or its utilization in construction joint ventures has decreased in 1999, the provision was recorded for the corresponding decrease in the fair value of the assets;
- A provision of lire 80 billion principally to write-off the investments in SOGIN S.p.A. (“Sogin”) and Gestore della Rete di Trasmissione Nazionale S.p.A. prior to the transfer of these subsidiaries to the Treasury Ministry at no cost; and
- A provision of lire 59 billion for the future restructuring of Engineering and Research activities.

These extraordinary expenses were offset in part by:

- Income of lire 214 billion related to a favorable judgment received in 1999 regarding prior year taxes and fees;
- Income of lire 57 billion related to a favorable court judgment for the Company in 1999. A receivable was recorded for this judgment, and the amount has been subsequently collected.

Extraordinary expenses in 1998 primarily included:

- A provision of lire 523 billion principally to record at fair value two construction projects that were halted by management in previous years. The projects’ fair values were estimated using available market prices, and potential estimated sales prices to unrelated third parties. The provision was based on the reduced probability of a favorable sale of these assets because of the technological change from the time these traditional plants began to be constructed. In particular, because of technological advances, combined cycle gas turbine plants now cost less to construct than traditional plants and they also are more efficient than traditional plants. Additionally, the economic crisis in 1998 in emerging markets, which represent the potential target for this kind of traditional technology, has reduced the probability of sales to an external party. Consequently, at the end of 1998, the Company reviewed the estimate of the fair value of these assets, not only using some of the above criteria, but also on the basis of potential utilization in construction joint ventures by the Company’s engineering and construction subsidiary, EnelPower;
- A provision of lire 386 billion relating to various voluntary early retirement programs available for employees and managers. In February and May 1998, the Company issued two different temporary offers to managers to accept voluntary early retirement. The first program was open from February 1998 through March 1998, while the second program was open only in May 1998. In April 1998, the Company issued a temporary offer to employees to accept early retirement during May and June 1998. In total, 124 managers and 4,896 employees accepted these packages. Both programs allowed for a one-time payment of salary for a certain number of months based upon the plans’ formula; and
- A provision of lire 166 billion accrued for a one-time additional benefit to active managers. These benefits were agreed upon between the managers and the Company prior to the establishment of FONDENEL Fund in 1998.

These expenses were offset in part by income of lire 109 billion related to the reversal of a court judgment against the Company. A receivable was recorded for this favorable judgment, and the amount has been subsequently collected.

(21) INCOME TAXES

The provision for income taxes for the years ended December 31, 1998, 1999 and 2000, were as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
		(billions of lire)	
Current	2,785	2,834	1,688
Deferred	146	424	1,791
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates.....	--	--	(286)
	<u>2,931</u>	<u>3,258</u>	<u>3,193</u>

The difference between the statutory and effective tax rate for the years ended December 31 1998, 1999 and 2000 is due to the following factors:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Statutory tax rate	48.0%	48.0%	48.0%
Deferred tax assets from prior years.....	-	(7.4)	-
Initial application of new accounting standard related to accounting for income taxes	(8.2)	-	-
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates.....	-	-	(6.0)
Permanent differences and other.....	0.8	1.2	1.0
Effective tax rate	<u>40.6%</u>	<u>41.8%</u>	<u>43.0%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

In 1999, deferred tax assets from prior years were recognized for lire 562 billion. The Company had not previously recorded the full benefits of these deferred tax assets, which primarily related to reserves for nuclear charges that had been recorded under Italian GAAP, due to the uncertainty of realization of the assets. During 1999, it was clarified which assets and liabilities of the Company's discontinued nuclear operation would be transferred to the new subsidiary, Sogin. The Company will be entitled to recognize the full benefit of the deferred assets at the time of transfer. Because of the reasonable certainty that the deferred tax assets will now be realized the Company recorded the related benefit in 1999.

The provision for income taxes in 2000 benefited from the adjustment of deferred taxes to bring them into line with lower corporate tax rates applicable beginning in 2001. The new tax rates have been applied in calculating deferred taxes for the year.

Significant components of the net deferred income tax liabilities are as follows as of December 31, 1999 and 2000:

	1999	2000
	(billions of lire)	
Deferred income tax liabilities:		
Accelerated depreciation	6,206	6,699
Other.....	-	637
Deferred income tax assets:		
Accruals and reserves	(1,232)	(1,233)
Net deferred income tax liabilities	4,974	6,103
.....	=====	=====

At December 31, 2000, all tax years prior to 1995 have been settled, for direct taxes, with Italian tax authorities by the Company.

(22) COMMITMENTS AND CONTINGENCIES

Financial Derivatives

The Company, in its operations of generation and distribution of electricity, purchases fuel power in the international oil and natural gas market and also purchases electricity from outside of Italy. The Company is therefore subject to exposure to foreign exchange rates and commodity price risks.

Considering its medium and long-term debt positions, the Company is also subject to interest rate risk. Derivative instruments are utilized by the Company to reduce these risks.

Notional Amounts and Credit Exposures of Derivatives

The notional value of a derivative is the contractual amount on the basis of which the differentials are exchanged; this amount can be expressed either on a value basis or on a physical quantities basis (such as tons). The amounts expressed in foreign currency are converted into lire applying the exchange rate at year-end. The amounts expressed in one of the currencies of European Economic and Monetary Union members are translated using the fixed exchange rates in the euro.

The notional amounts of derivatives summarized below do not represent amounts exchanged by the parties and, thus, are not a measure of the credit exposure of the Company.

Although the Company is exposed to credit-related losses in the event of non-performance by counterparts to derivative financial instruments, given the high credit standing of the counterparts, the Company does not expect any failure in meeting their obligations.

Interest Rate Risk Management

The Company enters into various types of interest rate contracts in managing its interest rate risk. The financial instruments utilized as of December 31, 1999 and 2000 were as follows:

1999	2000
-----	-----
--	---
-----	-----
Notional amount	

	(billions of lire)	
Interest rate swaps	7,461	6,967
Interest rate collars	3,930	1,400
	-----	-----
	11,391	8,367
	=====	=====

The Company enters into interest rate derivatives, particularly interest rate swaps, with the purpose to decrease the amount of debt subject to interest rate fluctuations and to lower funding costs. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed notional principal amount and agreed fixed or floating interest rates.

The Company also enters into interest rate collar contracts to reduce the potential impact of increases in interest rates on floating-rate long-term debt. These agreements are normally entered into when the fixed rate available under interest rate swaps are considered too high with respect to the Company's view about the level of future interest rates. The Company normally uses zero-cost collars that do not require payment of an option premium.

Foreign Exchange Rate Risk Management

The Company enters into various types of foreign exchange contracts in managing its foreign exchange risk. The foreign exchange contracts utilized as of December 31, 1999 and 2000, were as follows:

	1999	2000
	-----	-----
	--	---
	<u>Notional amount</u>	
	(billions of lire)	
Forward exchange contracts	510	601
Options	1,039	145
	-----	-----
	1,549	746
	=====	=====

At December 31, 2000, the Company also had euro/dollar forward exchange contracts outstanding with an aggregate notional amount of lire 4,620 billion, focused on the hedging of foreign exchange risk arising from the time lag related to the fuel cost reimbursement mechanism.

The Company uses forward exchange contracts and currency options primarily to hedge expenses denominated in foreign currencies. The accounts payable in non-EMU currencies are denominated mainly in U.S. dollars and Swiss francs. Both buy and sell amounts of such contracts are indicated at the notional value. Currency options, traded in the over-the-counter market, provide the Company with the right or the obligation to buy or sell agreed amounts of currency at a specified exchange rate at the end of a specified period, never exceeding one year. Also, the maturity of forward exchange contracts never exceed one year.

Commodity Risk Management

At the end of 1999, the Company established a new company, ENEL F.T.L. – Fuel Trading and Logistics with the purpose of providing fuel oil to the individual generation companies within the ENEL Group and to manage the Company's risk in the oil market. The new company started operations on June 1, 2000.

In 2000, due to the significant volatility in the currency and commodity market, and taking into consideration the next phase of the Energy Market that could discontinue the Equalization Fund mechanism (under Decree 70/1997), the Company adopted a systematic approach to cover commodity pricing and currency risk linked to the time lag present in the reimbursement mechanism.

In 2000, ENEL F.T.L. entered into derivative contracts on commodities to fix part of the margin between the costs and contribution received from the Authority under the Equalization Fund mechanism.

All the derivative positions utilized by the Company are strictly related to physical exposure deriving from the purchases of fuel oil in order to cover the margin cost-contribution.

The Company has entered in different transactions with the intent to align revenues and cost through the management of oil price risk in the international market. The derivative instruments are based on benchmark indexes (i.e., IPE Brent, NYMEX, WTI) that are the most appropriate instruments to hedge the oil index used and to fix the price for oil supplies. Any variation in the portfolio value of the derivative contracts is offset by a corresponding variation of the market value in the portfolio of the physical contracts, except for the risk arising from the misalignment between the price index of the oil supplies and the benchmark.

Under the commodity swap contracts, the Company establishes with a counterparty the exchange, estimated on a specific pricing period basis, of the difference between the average of an index and the predetermined fixed quantity value.

For future contracts, the Company purchases (sells) standardized contracts on the IPE – International Petroleum Exchange and the NYMEX – New York Mercantile Exchange. These contracts are subject to the daily payment of the margins and, therefore, no credit default risk exists.

At December 31, 2001, the notional value of the Company's open positions was as follows:

- Future: lire 1,141 billion or 21,827 contracts;
- Swaps on petroleum indexes: lire 82 billion or 310,000 tons; and
- Swaps on gas transmission fee: 1 billion cubic meters per year.

At December 31, 2000, the fair value of the above open positions was negative by lire 234 billion. This fair value is offset by the fair value of the underlying portfolio of the physical assets.

Purchase Commitments

The Company has entered into various fuel supply contracts primarily for the purchase of fuel oil and natural gas. The Company expects that its expenditures related to these commitments will approximate an aggregate of lire 23,316 billion for the period from January 1, 2001 through December 31, 2005.

The Company also has unconditional purchase obligations for electric power. The Company expects that its expenditures related to these commitments will approximate lire 6,788 billion for the period from January 1, 2001 through December 31, 2005.

Leases

The Company has entered into various operating leases, primarily related to offices, automobiles and office equipment, used in the normal course of business. The original lease terms generally do not exceed six years in accordance with Italian law, but may be renewed at expiration. Rent expense for significant leases totaled approximated lire 149 billion, lire 174 billion and lire 181 billion for the years ended December 31, 1998, 1999 and 2000, respectively, and are included in "Services and Rentals" in the accompanying consolidated statements of income. Future rental payments for the years 2001 through 2005 are estimated to be lire 238 billion, lire 233 billion, lire 216 billion, lire 213 billion and lire 217 billion, respectively.

Capital Expenditures

Although the actual amount of the Company's capital expenditures in future periods will depend on various factors that cannot presently be foreseen, the Company expects to make capital expenditures of approximately lire 32,850 billion in the 2001-2005 period. This estimate excludes capital expenditures to be made by WIND and includes those scheduled to be made with regard to generating facilities now owned by the Gencos (an aggregate total of approximately lire 6,370 billion).

Insurance

The Company maintains third-party insurance to cover property liabilities, and other risks in the normal course of business in amounts that the Company's management believes are adequate. In addition, the Company maintains casualty and liability insurance against risks of its business to the extent management considers appropriate. The level of this insurance is generally in line with that maintained by other state-owned entities in Italy.

Environmental Matters

The Company's electricity operations 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.

Environmental regulation affecting the Company's business primarily relates to air emissions, water pollution, waste disposal and electromagnetic fields. The principal objective of the Company's environmental policy is to comply with all relevant legislation and to seek to reduce adverse effects that the Company's activities may have on the environment.

The principal waste products of fossil-fueled electricity generation are sulfur dioxide ("SO₂"), nitrogen oxides ("NO_x"), carbon dioxide ("CO₂") and particulate matters such as dust and ash. The primary focus of the environmental regulations applicable to the Company's business is an effort to reduce these emissions.

Electromagnetic fields

In 1992, the Italian government adopted a regulation relating to exposure to electromagnetic fields, which applies to the extremely low frequency (50 Hz) used for the transmission, distribution and consumption of electricity. The government supplemented the regulation with an additional decree in 1995. This regulation sets:

- Maximum levels of exposure to electromagnetic fields from new and existing transmission and distribution lines and distribution substations. Compliance with maximum exposure limits for already installed lines generally involves increasing the height of towers carrying lines where necessary. The Company has submitted to the Environment Ministry plans to bring into compliance each of its approximately 130 transmission and distribution lines and distribution substations affected by the regulations. Approximately half of the Company's plans have already been approved by the Ministry and the Company is awaiting approval of the others. The Company will complete implementation of compliance measures relating to these maximum exposure limits by 2004, as required under the regulation; and
- Minimum distances between transmission or high-voltage distribution lines or substations and residential buildings, office buildings and similar areas for lines built after the adoption of the 1992 regulation. The minimum distance requirements for transmission and distribution lines installed after the adoption of the 1992 regulation result in distances for these lines that exceed what would be required to comply with the maximum exposure levels. All of the Company's lines installed after the adoption of the 1992 regulation are in compliance with the minimum distance requirements.

The above regulation of electromagnetic exposure complies with the maximum exposure limits set by international organizations such as the International Radiation Protection Association, the International Non-Ionizing Radiation Committee and the International Commission on Non-Ionizing Radiation Protection, and those set by a European Union recommendation issued on July 12, 1999.

In September 1998, the Italian government adopted a regulation setting limits to exposure to electromagnetic fields generated by high frequency infrastructure such as the transmission stations that WIND uses to provide mobile telephone services. This regulation:

- Sets maximum exposure levels;
- Sets "caution levels" (for buildings that are occupied for at least four hours per day) and "quality targets" to be met by operators;
- Gives Italian regional authorities the power to regulate the installation and modification of high-frequency infrastructure to ensure implementation of the regulation and responsibility for monitoring compliance with the maximum exposure levels and required preventive measures; and
- Requires owners of high-frequency infrastructures that do not comply with the maximum exposure levels and with the preventive measures to undertake any remediation measures that the regional authorities require.

In February 2001, the Italian parliament passed a new law on electromagnetic field exposure. The 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 infrastructures, such as electricity transmission and distribution lines and substations, and high-frequency infrastructures, such as the transmission stations that WIND uses to provide mobile telephone services. The new law may make it more difficult to install new transmission and distribution lines and substations in the future and may limit WIND's ability to expand the radio coverage for its operations.

Furthermore, the new law provides for the adoption and implementation of programs to restructure electricity transmission and distribution lines, substations and high frequency infrastructures, in accordance with maximum exposure levels, caution levels and quality targets to be set by the Italian government. Until such limit are set, the limits provided for by the regulation of 1992 and 1998 and the decree of 1995 mentioned above will continue to apply. If the Italian government were to set limits that are stricter than current limits, in order

to comply with the requirements of the new law, the Company would be required to upgrade, move or make other changes to some of its existing electricity lines and transmission and distribution facilities. Although with respect to electricity transmission and distribution lines and substations, the new law requires the Energy Authority to set the criteria, terms and conditions for the recovery of the costs that the owners of such lines and substations bear in implementing the restructuring plans, actual reimbursements the Company may receive may be lower than the actual cost.

In addition, the Bersani Decree requires that the System Operator pay to the owners of transmission lines consideration for the use of the lines which adequately reflects the costs which these owners have incurred to comply with regulatory requirements.

Principal EU legislation and international treaties regarding SO₂ and NO_x

The principal EU directive on air emissions affecting the electricity industry is the large combustion plants directive (the “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 July 1, 1988 and to establish emission limits for SO₂, NO_x and particulate matter from individual generation plants licensed after July 1, 1988. The European Union commission is currently reviewing the LCPD and may issue a new directive in 2001.

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

Principal Italian legislation regarding SO₂ and NO_x

Italy implemented the LCPD by a ministerial decree in 1989 by establishing strict limits on emissions from new plants and requiring the gradual reduction of aggregate emissions from plants licensed prior to July 1, 1988. In some cases the Italian limits are stricter than those imposed by the protocols and the LCPD.

In addition, in 1990, Italy established a regulation limiting emissions of polluting substances from thermal plants licensed before July 1, 1998 that is stricter than the LCPD and covers a much broader range of pollutants. This regulation requires that individual existing thermal plants in Italy reduce emissions to levels similar to those established under the LCPD for individual plants licensed after July 1, 1998. This regulation also provides a time schedule for the implementation of environmental compliance measures at existing plants.

In response to this regulation, the Company implemented in 1990 a significant program of environmental measures that affect the Company’s entire thermal generation operations. The Company submitted this program to the relevant ministries of the Italian government, including those for industry, environment and health. This program provides for modifications to both physical plant and operating practices.

In 1997, the Italian parliament imposed a tax on total SO₂ and NO_x emissions from thermal plants that have a nominal capacity of greater than 50 MWth. These plants are the same plants as those regulated under the LCPD.

CO₂ emissions

Both the European Union and Italy are signatories to the Kyoto Protocol, which was signed under the United Nations Framework Convention on Climate Change. With respect to Italy, the Kyoto Protocol establishes emission reduction targets for the reduction of emissions of CO₂ and other greenhouse gases (“GHGs”) in the 2008-2012 period by 6.5% of their 1990 levels.

On November 19, 1998, the Italian interministerial committee for economic planning issued the guidelines for Italian policies and measures for the reduction of greenhouse gas emissions in order to implement the Kyoto Protocol. These guidelines set targets for CO₂ emissions to be achieved through measures concerning various sectors of the Italian economy, including reduction of carbon produced in thermal electricity generation, increased use of electricity generation from renewable resources and demand side management to increase efficiency of energy use.

In July 2000, the Company signed a voluntary undertaking with the Environmental Ministry and the Ministry of Industry. Under this agreement, the Company undertook to reduce the annual level of CO₂ emissions produced by its plants for the period between 2002 and 2006. The undertaking anticipates a number of measures to reduce GHGs emissions including employing high-efficiency technologies, such as combined cycle gas turbine plants, promoting the use of renewable resources and developing innovative generation technologies using biomass and other wastes. The Company also expects to take advantage of the flexibility provided under the Kyoto Protocol for reducing GHGs emissions through joint projects in industrialized and developing countries and national or international trading of carbon and emission credits.

In January 1999, the Italian government introduced a carbon tax in accordance with applicable European Union directives. Under the current Italian implementing legislation, the amount of the tax, which is based on fossil fuel consumption, was initially scheduled to increase on an annual basis from 1999 through 2005, but has been frozen for the years 2000 and 2001 at the level for 1999. The legislation also establishes the possibility of review or cancellation of the tax if other EU member states have not adopted similar measures by 2001. On the basis of current forecasts of future fuel prices, the Company believes that application of the carbon tax as currently formulated could have a significant impact on the economic viability of the Company's oil-fired plants by the year 2005, should the tax rates then reach their maximum levels. As part of a Europe-wide initiative to address the impact of the carbon tax, the Company has proposed to the relevant ministries that the Italian government adopt a different method for calculating the tax which would apply an equal amount of tax per unit of CO₂ output, without regard for the type of fuel used to produce the energy in question. The Company believes that such a policy would produce the targeted reductions in CO₂ emissions without creating unequal burdens on certain types of generating facilities, particularly oil-fired and base load plants, no matter what their actual level of emissions.

PCBs and asbestos

In May 1999, the Italian government adopted a legislative decree concerning the recovery and disposal of electric transformers and other equipment containing polychlorinated biphenyls, or PCBs. Pursuant to this decree, the Company is delivering all of its equipment containing PCBs to companies authorized to recover and dispose of such equipment. The Company is also delivering waste products containing asbestos to specialized companies authorized to treat and dispose of asbestos. Such waste products derive from the clean-up of plants in accordance with the Company's general maintenance and environmental clean-up programs.

Water pollution prevention

The Company is subject to environmental laws and regulations limiting thermal discharges of water from its thermal plants and liquid waste from our hydroelectric plants. In May 1999, the Italian parliament adopted a new law for the prevention of the pollution of fresh and salt waters, which was amended in August 2000. The Company believes that the rules concerning thermal discharges from power plants into rivers and coastal

waters do not materially affect the operation of the Company's plants. In addition, the Company believes that the water treatment plants already operating in its generation plants are in line with the new requirements on liquid waste.

Solid waste management

In February 1997, the Italian government issued a legislative decree implementing the EU directives on solid waste management. In accordance with this decree, the Company has increased the level of recycling of its waste. The Company has implemented specific measures concerning fuels derived from waste, which the Company intends to use in dedicated plants or together with coal at its thermal generation plants.

Site clearance

The Company may incur liabilities in respect of sites that are found to be contaminated. Site values could also be affected by contamination. Under new law, sites located in certain industrial and other areas must be inspected to determine whether there is any serious ground contamination. If so, under the law the Italian government may provide financial support for restoration of the contaminated site. Based on the Company's environmental compliance practices and the current regulatory regime, the Company does not expect to have significant liabilities associated with contamination of sites being inspected.

Landscape safeguard

The Company has taken the following actions to reduce the environmental impact of its transmission and distribution lines:

- Re-using routes of previous power lines wherever possible;
- Soliciting internationally proposals for the design of new towers for its transmission 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;
- 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, the Company has built approximately two-thirds of its network in this way).

Environmental certifications and authorizations

The Company has joined a European Union initiative to implement a voluntary environmental management and certification system ("EMAS"), which seeks to improve the level of environmental efficiency and disclosure of European industrial companies. The Company is committed under the initiative to obtain EMAS certification for 26 of its generation plants, representing 55% of its installed capacity.

In August 1999, the Italian government enacted a legislative decree implementing the 1996 EU directive on the prevention and reduction of pollution. This legislative decree requires all industrial plants to operate under a new integrated environmental license by 2007 and make use of state of the art technologies for the prevention and reduction of pollution. The new license will set pollution limits and will be reviewed every five years or at

any time plants undergo significant renovation. The license for EMAS-registered plans will be reviewed every eight years.

Discontinued nuclear operations

Since November 2000, the Company has not owned nuclear power plants. The Company has also not produced electricity from nuclear power plants since 1988.

In addition to the Company's nuclear power plants, it owned a 33% 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, the Company sold its stake in NERSA. However, the Company retained ownership and responsibility for the decommissioning of its share of the nuclear fuel in the plant.

Following a national referendum in 1987, the Italian Parliament imposed a moratorium on the development and production of nuclear power in Italy. As a result, the Company shut down its nuclear plants, wrote-off related assets and wrote-down fuel stock to their net realizable values.

Pursuant to the Bersani Decree, the Company transferred its discontinued nuclear operations to Sogin, a wholly owned subsidiary. The principal activity of Sogin will be the decommissioning of the nuclear plants and the Company's share of the nuclear fuel in the NERSA plant in France, including disposal of nuclear fuel and nuclear waste.

Under the Bersani Decree, the Company was required to transfer to the Treasury Ministry all of the shares of Sogin at no cost. The transfer was completed on November 3, 2000.

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 (1963). In implementing the conventions, Italian law imposes a 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 all liability for nuclear accidents solely to the subject that is operator of the plant at the time of the accident. Consequently, the Company will not be liable for any accident occurring after the transfer of the Sogin shares to the Treasury Ministry, on November 3, 2000, even if the cause of those accidents predates the transfer. Although the Company is not aware of any accident that predates the transfer, the Company will remain liable for any accident that occurred before the transfer, even if the damage, or the accident itself, is discovered after November 3, 2000. The operator of the plant may claim from a third party which has contributed to the cause of the accident the reimbursement of 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 the Company's transfer of Sogin's shares, it represented to the Treasury Ministry that the Company had performed, on a regular basis, every required test on the nuclear plants and that the Company was not aware of any event which might be the source of civil liability for nuclear operations.

Under the Paris Convention and Italian law, the Company's direct liability arising from nuclear liability claims is limited to five million International Monetary Fund Special Drawing Rights, or SDRs, per accident. To the extent any claim exceeds five million SDRs, under Italian law, someone claiming damages may sue the

Company for only five million SDRs and must sue the Italian government for the excess liability up to 175 million SDRs. If the claim is in excess of 175 million SDRs, that person must sue the signatories to the conventions, but then only for the excess liability up to 300 million SDRs. However, the Italian government can claim reimbursement from the Company for any sums it may have to pay because of a nuclear accident arising from negligence on our part.

A provision of the Italian law implementing the conventions states that when damage has been caused concurrently by a nuclear accident and the emission of ionizing radiation, the liability of the person that caused this radiation is not subject to the limitations described above. This provision does not fully conform to the conventions because it does not specify that the ionizing radiation must not independently qualify as a nuclear accident in order to give rise to unlimited liability. The Company, however, believes that the correct interpretation of Italian law implementing the conventions is that only radiation not classified as a nuclear accident gives rise to liability outside the limitations described above. The Company believes all emissions of radiation originating from within nuclear plants would qualify as nuclear accidents. As a consequence, because the Company holds nuclear material inside its plants, it could only be liable outside the limitations described above under remote circumstances.

Litigation

The Company is a defendant in a number of legal proceedings incidental to the generation, transmission and distribution of electricity. Because of the nature of these proceedings, it is not possible to predict the ultimate outcomes of certain of those matters, some of which may be unfavorable to the Company. However, the Company does not expect the outcome of such proceedings, either individually or in the aggregate, to have a material adverse effect upon its financial position or results of operations. However, provisions are made in the accompanying consolidated financial statements for all significant liabilities that are expected to materialize.

A number of disputes are pending in relation to urban planning, landscape and environmental matters linked to the construction and operation of several generating plants and power lines. The examination of such disputes, also on the basis of legal advice, leads the Company to believe that unfavorable outcomes would be a remote possibility. While the possibility is remote, the risk that a limited number of cases might have unfavorable outcomes cannot be ruled out, and whose consequences could entail, in addition to the payment of damages. At the present time, such charges are not predictable and therefore, the Company has not accrued any liabilities for these disputes.

Environmental litigation

The Company has exposure for environmental contingencies as a result of the installation and operation of electrical equipment. The most important environmental issues are those relating to the effect of exposure to electric and magnetic fields generated by the equipment installed.

ENEL Distribuzione S.p.A. and T.E.R.N.A. S.p.A. are named in a number of civil and administrative legal proceedings in which the relocation or change in operating procedures for electrical lines is requested on the basis of their alleged harmfulness, despite the fact that the equipment has been installed in accordance with current standards.

A limited number of cases, which included claims for health related damages due to electromagnetic fields, have been filed against the Company, and only a few have resulted in unfavorable rulings against the Company. All of these have been appealed so at the present time there have been no final sentences.

(23) RELATED PARTY TRANSACTIONS

As the entity primarily responsible for electricity generation, transmission and distribution in Italy, the Company provides service to many other State-owned companies. In the vast majority of situations the rates charged are comparable to the tariffed rates charged to similar commercial organizations with the primary exception being the State-operated railroad system (Ferrovie dello Stato) which has negotiated discounted rates. Total revenues from State-owned companies were approximately 2% of total revenues for each of the three years ended December 31, 2000.

The Company purchases fuel for generation and electricity subsidized under CIP 6 rules from ENI S.p.A. ("Eni"), an Italian oil and gas company, in which the Treasury Ministry has an ownership interest. Total purchases of fuel and electricity from Eni were approximately 7% of total operating expenses for each of the three years ended December 31, 2000. Total purchases from all State-owned companies were approximately 10% of total operating expenses for each of the three years in the period ended December 31, 2000.

On July 1, 1999, the Company's telecommunications business unit was transferred to WIND. The business transferred included telecommunication assets, plant and infrastructure formerly used by the Company for its fixed and mobile telephone network and for data transmission. The transferred values were substantially consistent with the Company's consolidated book values of the assets (lire 600 billion) and liabilities (lire 10 billion). At the time of the transfer, an outsourcing agreement was signed between WIND and the Company according to which WIND will provide telecommunications services to the ENEL Group. For the first two years of the contract, these services will be provided to the Company at an amount substantially equivalent to the costs incurred by WIND for providing the service, to be adjusted to market prices in subsequent years.

On January 1, 1999, a 15-year contract between Company and WIND for the lease of the fiber optic network owned by the Company became effective. Lease payments are calculated on the basis of an adequate return on capital. Receivables and revenues from WIND relate to the supply of electricity, the rental of buildings and maintenance services supplied.

For the year ended December 31, 2000, the ENEL Group's transactions with WIND (accounted in the consolidated accounts under the equity method) were as follows:

	(billions of lire)
Revenues.....	282
Account Receivables.....	1,155
Expenses.....	588
Accounts Payable.....	588

(24) SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ITALIAN GAAP AND U.S. GAAP

The consolidated financial statements are prepared in accordance with Italian GAAP, as described in Note 2, which differs in certain respects from U.S. GAAP. The significant differences are as follows:

Fixed Assets and Related Depreciation

In accordance with various Italian laws, certain utility plant balances have been restated. Under U.S. GAAP, such restatements are not permitted. Additionally, in 2000, the Company initiated a 4-year plan to replace certain assets with newer technology. A U.S. GAAP adjustment resulted from the change in useful lives of the assets to be replaced. Lastly, since Italian GAAP and U.S. GAAP often have a different cost basis in fixed assets, differences in gains or losses on disposal arise between Italian and U.S. GAAP.

The reconciliations below include adjustments to eliminate the restatements, and related accumulated depreciation, to reflect the effect of the recomputation of depreciation expense on a historical U.S. GAAP cost basis and to recognize gains or losses on asset disposals in accordance with U.S. GAAP.

Capitalized Interest and Related Depreciation

Under U.S. GAAP, interest is required to be capitalized as part of the cost of constructing an asset in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost". Under Italian GAAP, interest capitalization is permitted, but not required. For Italian purposes, the Company has not capitalized any interest since December 31, 1988. The reconciliations below include adjustments to reflect capitalization of interest on assets, to the extent those assets qualify for interest capitalization in accordance with SFAS No. 34, and the related effect on depreciation.

Unbilled Revenues

As discussed in Note 2, the Company records revenues for electric services rendered when the electrical meter is read or when a customer is billed based on estimated consumption. Revenues for the supply of electricity provided after the last meter reading prior to year-end, as well as differences between estimated and actual consumption, are recognized in the subsequent period when billed. Under U.S. GAAP, revenues are recorded for all services provided through the end of the accounting period. The reconciliations presented below include adjustments to recognize the net impact on revenues for all services provided during each fiscal period, even if amounts are not billed at the period end.

Pension and Employee Termination Accounting

As discussed in Note 2, the Company grants certain pension and other benefits to its employees, as required by Italian law and under labor contracts. In particular, the Company's employees are covered by a plan required under Italian law and labor contracts which grants a termination indemnity based on compensation and years of service. The Company has accrued the amount due to each employee as of the respective year-end, based on such factors and dates. In addition, the Company is required, by agreements with trade unions, to provide certain additional employee termination benefits. The reserve for these termination benefits is accrued on a current liability basis at the end of each year and accordingly is not actuarially computed.

Other Postretirement Benefits Accounting

As discussed in Note 2, the Company grants certain postretirement benefits to its employees, mainly related to a reduction on electricity tariffs and contributions to certain employee programs that provide medical benefits. The related costs are expensed as incurred under Italian GAAP.

SFAS No. 106, "Accounting for Postretirement Benefits Other than Pensions", requires the provision for various employee benefit arrangements to be recognized over the employees' employment period based on actuarially determined calculations. The reconciliations presented below include adjustments to recognize the other postretirement benefits in accordance with SFAS No. 106.

Social Security Withholdings and Contribution ("Solidarity Contribution")

As discussed in Note 2, the Company was required to pay approximately lire 126 billion for social security withholdings and contributions (relating to the period from September 1, 1985 to June 30, 1991), during 1997 through 1999. In the accompanying consolidated financial statements, the amounts are expensed as paid over the deferred payment period. U.S. GAAP requires the recognition of a liability on an accrual basis, when it is probable and reasonably estimated. The reconciliations below include adjustments to reflect the liabilities on an accrual basis.

Derivatives

The Company enters into derivatives for general and specific hedging purposes. The general hedges are not designed against specific transactions. Under U.S. GAAP, derivatives that are not designated to hedge specific transactions are accounted for at estimated market value with gains and losses being recognized in the statements of income currently.

Additionally, in connection with the preliminary agreement signed by the Company in October 2000, to acquire Infostrada, the Company also entered into derivative instruments to manage its exposure to the variable adjustment mechanism in the preliminary agreement. For Italian GAAP purposes, the settlement of the derivative instruments will be considered a component of the purchase price of Infostrada, while U.S. GAAP does not allow hedge accounting for instruments intended to manage the purchase price of a business combination. Therefore, any resulting gains or losses from these instruments must be recorded as a gain or loss in the statements of income.

The reconciliations below include adjustments to reflect all of the types of derivatives described above at their estimated market value in the statements of income.

Effect of U.S. GAAP Adjustments on WIND Equity

Certain differences between Italian GAAP and U.S. GAAP exist in the accounts of WIND, primarily related to start-up and advertising costs, which are required to be expensed for U.S. GAAP purposes. The reconciliations below include adjustments to recognize the Company's investment in WIND on a U.S. GAAP basis.

Restructuring Reserve

The Italian GAAP financial statements reflect accruals for anticipated restructuring charges to occur in the future. U.S. GAAP requires that certain conditions must be met before a restructuring accrual can be established. These conditions have not been met, therefore, the reconciliations below reflect adjustments for the difference in the timing of the accruals.

Italian Pension System Obligation

As discussed in Note 8, the Company is required to pay extraordinary contributions to the Italian national pension system in the three year period 2000-2002. U.S. GAAP requires the expense to be recorded for these amounts during the year that the contributions are due, while Italian GAAP allows these amounts to be expensed over a 20-year period. The reconciliations presented below include an adjustment to recognize the expense in accordance with U.S. GAAP.

Investment in Equity Securities

As discussed in Note 9, the Company has an investment in the equity securities of Echelon Corporation. For Italian GAAP purposes, the investment is accounted for under the cost method. For U.S. GAAP purposes, the securities must be recorded at their fair value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The reconciliations below include an adjustment to recognize the investment in accordance with SFAS No. 115.

Deferred Taxes

The Company records deferred taxes in accordance with Italian Accounting Standard No. 25, which is substantially consistent with SFAS No. 109, "Accounting for Income Taxes." For Italian GAAP purposes, the

Company is not required to recognize deferred taxes on capital reserves if they are not expected to be distributed and the Company has not yet provided deferred taxes for the Legal Reserves, Law 292/93. Reserves or other reserves. For Italian GAAP purposes, the tax effect will be recognized when these amounts are reimbursed to the shareholders. For U.S. GAAP purposes, these taxes are required to be recognized since certain criteria have been met. The reconciliations below include the adjustments to recognize income taxes in accordance with SFAS No. 109.

Extraordinary Income and Expenses

As discussed in Note 2, items are recorded as extraordinary under Italian GAAP if they meet a certain criteria. U.S. GAAP requires more stringent conditions for extraordinary item classification by also requiring the underlying event or transaction to clearly possess a high degree of abnormality and be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the event operates. Items recorded by the Company as extraordinary in the years presented herein for Italian GAAP would not qualify as extraordinary under U.S. GAAP. Such items have been reclassified to the appropriate income statement captions as determined by U.S. GAAP, and consequently have been included in the determination of operating income contained in the condensed consolidated statements of income presented in Note 25.

Consolidation of WIND

As discussed in Note 2, the Company acquired additional shares in WIND at the end of July 2000 as a result of a settlement agreement with France Telecom and Deutsche Telekom. In association with the settlement agreement, a new shareholder's agreement was signed between ENEL and France Telecom, which eliminated certain management and control restrictions previously imposed on the Company. For U.S. GAAP purposes, WIND will be consolidated starting August 1, 2000, while the investment is presented under the equity method for Italian GAAP purposes, due to the existence of control restrictions for the larger part of the period. Therefore, in the condensed consolidated financial statements for the year ended December 31, 2000 (see Note 25), WIND will be presented under the equity method for the first seven months of the year and consolidated for the last five months.

(25) **RECONCILIATION BETWEEN NET INCOME AND SHAREHOLDERS' EQUITY DETERMINED UNDER ITALIAN GAAP AND U.S. GAAP**

The following table summarize the significant adjustments to consolidated net income for the years ended December 31, 1998, 1999 and 2000 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	1998	1999	2000	2000
	(billions of lire (a))			(millions of U.S. dollars (a))
Net Income as reported in the consolidated statements of income	4,286	4,541	4,236	2,054
Items increasing (decreasing) reported net income:				
Depreciation on fixed assets.....	433	403	717	348
Capitalized interest and related depreciation (b).....	(4)	(74)	(63)	(31)
Unbilled revenues.....	(18)	181	(117)	(57)
Pension and employee termination accounting	(55)	(104)	(215)	(104)
Other postretirement benefits accounting.....	(17)	(46)	(37)	(18)
Social security withholdings and contribution.....	42	42	-	-
Derivatives.....	(71)	52	(160)	(78)
.....				
Effect of U.S. GAAP adjustments on WIND equity.....	-	(55)	1	-
Restructuring reserve.....	-	59	(33)	(16)
Italian pension system obligation.....	-	-	(1,118)	(542)
Investment in equity securities.....	-	-	68	33
Deferred taxes.....	(933)	(362)	-	-
Tax effect of reconciling items.....	(132)	(191)	286	139
Approximate net income in accordance with U.S. GAAP.....	3,531	4,446	3,565	1,728
	=====	=====	=====	=====
Basic and diluted earnings per share in accordance with U.S. GAAP (c)	291	367	294	0.14
	=====	=====	=====	=====

(a) Except per-share data which is in lire and U.S. dollars

(b) Includes related depreciation of lire 121 billion, lire 135 billion, lire 138 billion and U.S. \$67 million, respectively.

(c) The approximate per share amounts have been calculated in accordance with SFAS No. 128, "Earnings Per Share". See Note 26 for additional information on earnings per share. For purposes of these calculations the weighted average

number of shares was 12,126,150,379 shares as of December 31, 1998, 1999 and 2000, respectively.

The following table summarizes the significant adjustments to consolidated shareholders' equity as of December 31, 1999 and 2000 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	1999	2000	2000
	(billions of lire)		(millions of U.S. dollars)
Shareholders' equity as reported in the consolidated			
Balance sheet.....	34,034	35,457	17,191
Items increasing (decreasing) reported shareholders' equity:			
Fixed assets and related depreciation (a).....	(3,315)	(2,598)	(1,260)
Capitalized interest and related depreciation (b).....	2,918	2,855	1,384
Unbilled revenues.....	1,087	970	470
Pension and employee termination accounting.....	(118)	53	26
Other postretirement benefits accounting.....	(2,005)	(2,042)	(990)
Derivatives.....	(7)	(167)	(81)
Effect of U.S. GAAP adjustments on WIND equity.....	(55)	(54)	(26)
Restructuring reserve.....	59	26	13
Italian pension system obligation.....	-	(1,118)	(542)
Investment in equity securities.....	-	(126)	(61)
Deferred taxes.....	(205)	(205)	(99)
Tax effect of reconciling items.....	502	716	347
Approximate shareholders' equity in accordance with U.S. GAAP.	32,895	33,767	16,372
	=====	=====	=====

- (a) Includes related accumulated depreciation of lire 24,342 billion, lire 24,113 billion, and U.S. \$11,691 million, respectively.
- (b) Includes related accumulated depreciation of lire 663 billion, lire 801 billion and U.S. \$388 million, respectively.

There are other differences between Italian GAAP and U.S. GAAP which have not been included in the U.S. GAAP reconciliation because their effects on net income and shareholder's equity are not considered material. Following is a brief description of such differences:

1. **Cost of Removal and Land Depreciation** – The Company does not specifically provide a reserve for the cost of removal of utility plant upon completion of its service period since the environmental laws in Italy do not require removal of generating assets. The Company does, however, provide depreciation on land on which generating stations and other property are located. Under U.S. GAAP, land is not depreciated, but specific provisions are generally made for the cost of removals as a reduction in net utility plant or reflected as a liability in the balance sheet. The effect of not providing for the cost of removal of plant or the depreciation of land is not material, individually or in the aggregate, on the Company's financial position and results of operations.
2. **Equity Method of Accounting for WIND** – In the Italian financial statements presented for 1998, the Company's investment in WIND was accounted for under the cost method of accounting. Under U.S. GAAP, WIND should have been accounted for under the equity method in 1998 since the Company had significant influence (but not control) over the investment. This effect is not material to the Company's results of operations for 1998.

The condensed consolidated balance sheets as of December 31, 1999 and 2000 presented below have been restated to reflect the principal differences between Italian GAAP and U.S. GAAP. The minority interest presented below relates to the Company's investment in WIND.

CONSOLIDATED BALANCE SHEETS	As of December 31,		2000 (millions of U.S. dollars)
	1999	2000	
	(billions of lire)		
Assets			
Current Assets.....	13,072	20,355	9,869
Fixed Assets, net.....	73,014	72,422	35,114
Other non-current assets.....	1,707	12,817	6,214
	-----	-----	-----
	87,793	105,594	51,197
	=====	=====	=====
Liabilities and Shareholders' Equity			
Current liabilities.....	20,904	32,546	15,780
Long-term debt.....	16,961	19,946	9,671
Other non-current liabilities.....	17,033	19,047	9,235
	-----	-----	-----
Total liabilities.....	54,898	71,539	34,686
	-----	-----	-----
Minority interest.....	-	288	139
Shareholders' equity.....	32,895	33,767	16,372

-----	-----	-----
87,793	105,594	51,197
=====	=====	=====

The condensed consolidated statements of income for the years ended December 31, 1998, 1999 and 2000 presented below have been restated to reflect the principal differences between Italian GAAP and U.S. GAAP. The minority interest presented below relates to the Company's investment in WIND.

CONSOLIDATED STATEMENTS OF INCOME

	1998	1999 (billions of lire)	2000	2000 (millions of U.S. dollars)
Total operating revenues.....	39,770	40,765	51,179	24,814
Total operating expenses.....	31,083	30,886	43,309	20,998
Operating income (a).....	8,687	9,879	7,870	3,816
Financial income (expense).....	(1,434)	(1,018)	(1,386)	(672)
Other non-operating expenses.....	-	(674)	(433)	(210)
Income before income taxes.....	7,253	8,187	6,051	2,934
Income taxes.....	3,722	3,741	2,750	1,333
Income before minority interest.....	3,531	4,446	3,301	1,601
Minority interest (loss).....	-	-	(264)	(127)
Net income.....	3,531	4,446	3,565	1,728

- (a) The operating income for the year ended December 31, 2000, is affected by the U.S. GAAP difference on the extraordinary social contribution (Lire 1,118 billion, see Note 8) and by the operating loss incurred by WIND in the five months for which it has been consolidated (lire 619 billion).

The condensed consolidated statements of changes in shareholders' equity for the years ended December 31, 1999 and 2000 presented below have been restated to reflect the principal differences between Italian GAAP and U.S. GAAP as discussed above.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital	Retained Earnings	Other Comprehensiv e Income	Total
	(billions of lire)			
Balance as of December 31, 1998.....	12,126	23,473	(814)	34,785
Net income.....	-	4,446	-	4,446
Minimum pension liabilities.....	-	-	51	51
Distribution of reserves.....		(4,422)	-	(4,422)

Dividends.....	-	(1,965)	-	(1,965)
	-----	-----	-----	-----
Balance as of December 31, 1999.....	12,126	21,532	(763)	32,895
	=====	=====	=====	=====
Net income.....	-	3,565	-	3,565
Unrealized loss on equity securities.....	-	-	(126)	
				(126)
Minimum pension liabilities.....	-	-	246	246
Dividends.....	-	(2,813)	-	(2,813)
	-----	-----	-----	-----
Balance as of December 31, 2000.....	12,126	22,284	(643)	33,767
	=====	=====	=====	=====
(millions of U.S. dollars)				
Balance as of December 31, 2000.....	5,879	10,804	(311)	16,372
	=====	=====	=====	=====

DISCLOSURE OF COMPREHENSIVE INCOME

	1999	2000	2000
	(billions of lire)		(millions of U.S. dollars)
Net income.....	4,446	3,565	1,728
Minimum pension liabilities.....	51	246	119
Unrealized loss on equity securities.....	-	(126)	(61)
	-----	-----	-----
Total comprehensive income.....	4,497	3,685	1,786
	=====	=====	=====

(26) ADDITIONAL U.S. GAAP DISCLOSURES

(a) Concentrations of Risk and Certain Significant Estimates

The Company's business is largely determined by laws, regulations and policies established by the European Union and the Italian government. As described in Note 3, the regulatory framework for the Italian electricity market has changed significantly in recent years with the implementation of the Bersani Decree, which is designed to liberalize and create more competition in the Italian electricity market. The changes caused by the Bersani Decree include the adoption of a new tariff structure, the restructuring of the Company's transmission business in order to transfer the management of the transmission network to the System Operator, the reorganization of the Company's generation, transmission and distribution operations into separate business units and the requirement that the Company sell no less than 15,000 MW of its generating capacity by January 2003. Because these regulations are still in the process of being implemented, the ultimate impact on the Company's business and the Italian electricity market is difficult to predict.

Tariff Structure

The new tariff structure has resulted in significant reductions in tariff revenues in 2000 and will continue in the future. These reductions are expected to result from lower rates in 2000 for generation, transmission and distribution fees, the application of price cap reductions to transmission and distribution fees after 2000 and reductions in generation fees established by the Authority in 2001 and expected in connection with the operation of the Pool Market, which is expected to begin operations in 2002.

Generation

The Bersani Decree provides that after January 1, 2003 no single company or group may generate or import more than 50% of the total amount of electricity generated and imported in Italy. To comply with this provision, the Company has developed a plan to dispose of plants representing approximately 15,057 MW of the Company's net installed capacity, which is equivalent to approximately 16,000 of gross installed capacity.

The Bersani Decree provides that the disposal of the ENEL Group's excess generation capacity should happen at market prices. Nonetheless, the sale of that capacity must also comply with several requirements under the decree which could adversely affect the price the Company receives.

Distribution

The Bersani Decree calls for significant consolidation among existing electricity distributors in urban areas. If operators in the distribution market fail to consolidate in the way described in the new regulation, the Company may be obliged to sell its distribution networks in a number of metropolitan areas.

Increased Competition

For many years the Company has had virtually no competition in the generation and transmission market and limited competition in the distribution market in Italy. The Company currently faces limited competition from independent power producers and municipal utilities in generation. The Company expects that competition in the generation of electricity will increase after the disposal of 15,000 MW of generating capacity. The Company also faces competition from suppliers and wholesalers for sales to customers that are intensive users of electricity and may freely purchase electricity from different producers.

Basis of Presentation

The preparation of financial statements in conformity with Italian GAAP, along with the reconciliation to U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

(b) Accounting for Deferred Income Taxes

Under SFAS No. 109, the Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns.

Deferred tax assets and liabilities are determined based on the temporary differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A detail of the provision for income taxes for the years ended December 31, 1998, 1999, and 2000 is as follows:

	1998	1999	2000	2000
		(billions of lire)		(millions of U.S. dollars)
Current	2,785	2,834	1,688	818
Deferred	937	907	1,062	515
	-----	-----	-----	-----

3,722	3,741	2,750	1,333
=====	=====	=====	=====

The difference between the statutory and effective tax rate for the years ended December 31, 1998, 1999 and 2000, is due to the following factors:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Statutory tax rate	48.0 %	48.0%	48.0%
Valuation allowance.....	3.1	(3.1)	-
Change in tax rates.....	-	-	(3.6)
Permanent differences and other.....	0.2	0.8	1.0
	-----	-----	-----
Effective tax rate.....	51.3%	45.7%	45.4%
	=====	=====	=====

The components of the net deferred tax assets (liabilities) as of December 31, 1999 and 2000 are as follows:

	<u>1999</u>	<u>2000</u>	<u>2000</u>
	(billions of lire)		(millions of U.S. dollars)
Deferred tax assets:			
Other post retirement benefits	984	817	396
Revaluation of fixed assets	1,367	1,028	498
Provision for contingent liabilities.....	647	725	352
Bad debt reserve	249	201	97
WIND loss carryforwards.....	-	388	188
Other	139	299	146
	-----	-----	-----
Subtotal	3,386	3,458	1,677
	-----	-----	-----
Deferred tax liabilities:			
Accelerated depreciation	(6,206)	(6,699)	(3,248)
Capitalization of interest on fixed assets	(1,204)	(1,122)	(544)
Unbilled revenues	(448)	(390)	(189)
Equity reserves	(205)	(205)	(99)
Other	-	(246)	(120)
	-----	-----	-----
Subtotal	(8,063)	(8,662)	(4,200)
	-----	-----	-----
Net deferred tax liabilities	(4,677)	(5,204)	(2,523)
	=====	=====	=====

As discussed in Note 21, the Company will now be able to realize the full benefits of certain deferred tax assets. For U.S. GAAP purposes, the Company had previously reflected a valuation allowance against these deferred tax assets.

(c) Segment Information

The Company is involved in the generation, transmission and distribution of electricity and related activities, providing the majority of the electric service in Italy. The Company is also investing in businesses outside of

the core electricity industry, including telecommunications, gas and water distribution, Internet and information technology services.

Prior to October 1, 1999, the Company's reportable segments were strategic divisions of the organization. Each division had its own management structure, headed by a division manager who reported directly to the Chief Executive Officer of the Company. Beginning October 1, 1999, separate companies were formed to carry out the operations of the main divisions of the Company, including a corporate entity which maintains primary responsibility for purchases of fuel used in thermal electricity generation as well as the purchase of electricity from external producers, both within Italy and abroad.

Transfer pricing for intersegment sales and for operations of the separate companies during the year ended December 31, 1999, were based on internal management allocations which are not representative of the market prices which began to be charged on January 1, 2000, pursuant to the Bersani Decree. Additionally, as described in Note 3, the Italian electricity sector is currently going through significant changes which will have impacts on each of the Company's segments, including (but not limited to) changing tariff rates and reorganized activities. The changes will impact the comparability of the 1999 segment information to future periods. In particular, in April 2000, the Company transferred its electricity dispatching and national transmission network management operations to the System Operator.

Based on the Company's approach to managing its business, the following segments have been identified for Italian GAAP purposes: generation, transmission, distribution, corporate and other.

The generation, transmission and distribution segments represent the operations carried out by the Company's core businesses in the electricity industry in Italy.

The corporate operations consist primarily of the purchasing of fuel used in thermal electricity generation and the purchase of electricity from external sources, both within Italy and abroad. The corporate segment sells the fuel to the generation segment at cost and sells the electricity from external producers to the distribution segment at prices established by the Energy Authority. The corporate segment collected up to December 31, 2000, Equalization Fund contributions for overseas net purchases of electricity and a portion related to domestic purchases and incentives for renewable energy sources. The corporate segment also provides treasury, human resources, risk management, legal and administrative services to each of the Group's operating companies other than WIND.

The other activities of the Company include research and development, information technology services, real estate management and general services, engineering management and construction, and telecommunication services (until July 1999, at which time WIND began providing these services to the Company). The other activities also include the Company's investments in the following industries: telecommunications, gas and water distribution and Internet and information technology services.

The accounting policies of the segments are the same as those described in the significant accounting policies (Note 2). No geographic information has been presented since substantially all of the Company's operating activities are located in Italy.

Information about the Company's segments, prepared in accordance with Italian GAAP, for the years ended December 31, 1998, 1999 and 2000 were as follows:

<u>Generation</u>	<u>Transmissio</u>	<u>Distribution</u>	<u>Corporate</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
	u					
(billions of lire)						

<u>1998</u>							
Revenues.....	19,270	19,010	27,280	-	4,153	(29,925)	39,788
Operating Income	6,930	175	3,434	-	(806)	(129)	9,604
Depreciation and Amortization	2,297	385	2,863	-	491	-	6,036
Capital Expenditures	1,869	594	3,007	-	401	-	5,871
Identifiable Assets	41,047	9,336	25,545	-	15,489	(838)	90,579

<u>1999</u>							
Revenues.....	18,584	16,157	28,166	-	3,803	(26,126)	40,584
Operating Income	6,333	110	4,493	-	(463)	(47)	10,426
Depreciation and Amortization	2,493	427	2,880	-	401	-	6,201
Capital Expenditures	1,578	436	3,246	-	393	-	5,653
Identifiable Assets	42,621	7,823	31,321	-	17,116	(11,716)	87,165

<u>2000</u>							
Revenues.....	22,325	1,492	26,920	18,975	6,368	(27,462)	48,618
Operating Income	4,558	459	2,881	944	482	(120)	9,204
Depreciation and Amortization	2,729	444	3,120	13	391	-	6,697
Capital Expenditures	1,104	367	2,630	-	578	-	4,679
Identifiable Assets	44,932	8,013	33,011	12,396	21,814	(24,062)	96,104

(millions of U.S. Dollars)

<u>2000</u>							
Revenues.....	10,824	723	13,052	9,200	3,088	(13,315)	23,572
Operating Income	2,210	222	1,396	458	234	(58)	4,462
Depreciation and Amortization	1,323	215	1,513	6	190	-	3,247
Capital Expenditures	535	178	1,275	-	280	-	2,268
Identifiable Assets	21,785	3,885	16,005	6,010	10,577	(11,666)	46,596

The Company's segment information, prepared in accordance with U.S. GAAP, for the years ended December 31, 1998, 1999 and 2000 presented below has been restated to reflect the principal differences between the Company's accounting policies and U.S. GAAP. "Telecom" is reported as a separate segment under U.S. GAAP as it meets the operating criteria set forth in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Generation Transmissio Distribution Telecom Corporate Other Eliminations Consolidated
n

(billions of lire)

<u>1998</u>								
Revenues.....	19,270	19,010	27,262	-	-	4,153	(29,925)	39,770
Operating Income	6,093	228	3,317	-	-	(822)	(129)	8,687
Depreciation and Amortization	2,378	365	2,696	-	-	285	-	5,724
Capital Expenditures	1,986	594	3,007	-	-	401	-	5,988
Identifiable Assets	41,868	9,365	28,876	-	-	11,388	(838)	90,659

<u>1999</u>								
-								
Revenues.....	18,584	16,157	28,347	-	-	3,803	(26,126)	40,765
Operating Income	5,897	90	4,256	-	-	(317)	(47)	9,879
Depreciation and Amortization	2,591	408	2,725	-	-	209	-	5,933

Capital Expenditures	1,639	436	3,246	-	-	393	-	5,714
Identifiable Assets	43,470	7,744	34,899	-	-	13,396	(11,716)	87,793

2000

Revenues.....	22,524	1,493	26,973	1,401	19,457	6,793	(27,462)	51,179
Operating Income	4,352	413	1,765	(619)	1,274	805	(120)	7,870
Depreciation and Amortization	2,666	411	3,134	207	43	286	-	6,747
Capital Expenditures	1,179	367	2,630	-	2	576	-	4,754
Identifiable Assets	46,616	7,974	35,545	9,258	12,332	20,051	(26,182)	105,594

(millions of U.S. Dollars)

2000

Revenues.....	10,921	724	13,078	679	9,434	3,293	(13,315)	24,814
Operating Income	2,110	200	856	(300)	618	390	(58)	3,816
Depreciation and Amortization	1,293	199	1,520	100	20	139	-	3,271
Capital Expenditures	572	178	1,275	-	1	279	-	2,305
Identifiable Assets	22,602	3,866	17,234	4,489	5,979	9,722	(12,695)	51,197

(d) Earnings per Share

In accordance with SFAS No. 128, “Earnings per Share”, basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is increased to include any potential common shares. Potential shares include options, warrants, and convertible securities. For the years ended December 31, 1998, 1999 and 2000, the Company had no potential common shares therefore basic and diluted earnings per share were equal.

The computation of basic and diluted earnings per share for the years ended December 31, 1998, 1999 and 2000, prepared in accordance with U.S. GAAP, are as follows:

<u>Basic and Diluted EPS</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2000</u>
		(billions of lire*)		(millions of U.S. dollars*)
Net income available to common shareholders	3,531	4,446	3,565	1,728
Weighted average shares outstanding (in millions)	12,126	12,126	12,126	12,126
Earnings per share (basic and diluted).....	291	367	294	0.14

(*) – Except per-share data which is in lire and U.S. dollars

(e) Fair Value of Financial Instruments

As required by SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, the Company has estimated the fair values of its financial instruments held.

In the normal course of its business, the Company utilizes various types of financial instruments. These instruments include recorded assets and liabilities, as well as items that principally involve off-balance sheet risk. Information about the fair value of the Company’s financial instruments is presented below.

- Cash and cash equivalents: the carrying values of cash and cash equivalents approximate their fair values because of their short maturities.

- Social security relief receivable: the fair value of this receivable, including current maturities, is estimated based on the discounted value of future cash flows expected to be paid, considering current rates of interest.
- Short-term debt: the carrying value of short-term debt approximates fair value because of the short period of time between the origination and maturity of the borrowings.
- Bonds Payable-listed: the fair value of bonds payable-listed is based upon period-end market prices.
- Other bonds and long-term debt (including current maturities): the fair values of other bonds and long-term debt (including current maturities) are based on discounted cash flow analyses.

	As of December 31,			
	1999		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(billions of lire)			
Social security relief receivable (current and non-current portion).....	362	389	189	197
Bonds payable-listed.....	9,657	9,524	8,028	7,931
Other bonds and long-term debt, including Current maturities.....	11,042	11,209	11,434	11,525

- Derivative financial instruments: the fair value of derivatives generally reflects the estimated amounts that the Company would pay or receive to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Appropriate pricing models and current market input data (such as volatility, interest rate curves and foreign exchange rates) have been used to estimate the fair value for the Company's derivatives.

	As of December, 31	
	1999	2000
	Fair Value	
	(billions of lire)	
Interest rate swaps	(170)	(115)
Interest rate collars	(27)	(7)
	-----	-----
Total interest rate derivatives	(197)	(122)
Forward	(10)	(49)
Options	(7)	1
	-----	-----
Total foreign exchange derivatives	(17)	(48)
	-----	-----
	(214)	(170)
	=====	=====

At December 31, 2000, the Company has already recognized in income the entire value of the foreign exchange derivatives portfolio and the fair value of one interest rate swap. Net of such amounts, the fair value of the Company's financial derivatives would have been negative by lire 107 billion. At December 31, 2000, the Company also had euro/dollar forward exchange contracts outstanding with an aggregate notional amount of lire 4,620 billion, focused on the hedging of foreign exchange risk arising from the time lag related to the fuel cost reimbursement mechanism. Any changes in fair value of these contracts, deriving from a possible appreciation or depreciation of the euro against the dollar, would be fully offset by a corresponding change in the amount of the fuel cost reimbursements.

Interest rate derivatives used by the Company mainly consist of interest rate swaps and interest rate collars, in order to lock in a fixed interest rate to balance the fix/floating ratio on its long-term debt. At December 31, 2000 and 1999, the Company accrued an amount of lire 24 billion and lire 180 billion, respectively, as provisions for the restructuring of financial instruments. The accrual covers the charges, which may potentially be retrieved, deriving from restructuring of interest rate derivative contracts linked to medium and long-term debt repaid before expiration during the year. Such costs, calculated as the fair

value at December 31, 2000 and 1999 of derivative instruments resulting from the restructuring, will be deferred and spread over the life of the restructured hedging contracts. Net of such provision, and net of the above mentioned swaps already included in financial expense, the fair value of interest rate derivatives would be negative lire 84 billion and lire 17 billion, at December 31, 2000 and 1999, respectively.

(f) Effects of Regulation

As discussed in Note 3, the Company is subject to the regulatory control of the Energy Authority with additional oversight provided by numerous laws, decrees and codes. The current regulatory tariff structure provides the Company with recovery of certain levels of cost through a price cap framework, and not necessarily its specific cost of providing service. Accordingly, SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation", which relates to an entity whose rates are regulated on an actual cost basis, is not currently applicable to these consolidated financial statements.

(g) Utility Plant

The Company's net utility plant under U.S. GAAP consisted of the following:

	<u>1999</u>	<u>2000</u>	<u>2000</u>
	(billions of lire)		(millions of U.S. dollars*)
<u>Utility plant, gross:</u>			
Generating Plant:			
Hydroelectric.....	12,826	13,347	6,471
Thermal.....	38,548	39,552	19,177
Geothermal and other renewable sources.....	2,696	2,873	1,393
Transmission line.....	9,689	9,942	4,820
Distribution Network.....	54,353	56,280	27,287
Telecommunication.....	-	2,912	1,412
Land and Buildings.....	2,199	3,666	1,778
Other.....	4,407	4,827	2,340
Construction in progress.....	6,756	3,922	1,902
Total.....	<u>131,474</u>	<u>137,321</u>	<u>66,580</u>
<u>Accumulated Depreciation:</u>			
Generating Plant:			
Hydroelectric.....	4,063	4,620	2,240
Thermal.....	14,688	16,509	8,004
Geothermal and other renewable sources.....	1,001	1,188	576
Transmission Line.....	3,363	3,726	1,807
Distribution Network.....	31,595	34,440	16,698
Telecommunication.....	-	535	259
Land and Buildings.....	623	1,035	502
Other.....	3,127	2,846	1,380
Construction in progress.....	-	-	-
Total.....	<u>58,460</u>	<u>64,899</u>	<u>31,466</u>
<u>Utility plant, net:</u>			
Generating Plant:			
Hydroelectric.....	8,763	8,727	4,231
Thermal.....	23,860	23,043	11,173

Geothermal and other renewable sources.....	1,695	1,685	817
Transmission Line.....	6,326	6,216	3,013
Distribution Network.....	22,758	21,840	10,589
Telecommunication.....	-	2,377	1,153
Land and Buildings.....	1,576	2,631	1,276
Other.....	1,280	1,981	960
Construction in progress.....	6,756	3,922	1,902
	-----	-----	-----
Total.....	73,014	72,422	35,114
	=====	=====	=====

(h) Impairment of Long-lived Assets

For U.S. GAAP purposes, the Company assesses potential impairment of certain assets under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of". In applying SFAS No. 121, the Company assesses potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In making this assessment, the Company groups its assets at the lowest level of identifiable cash flows that are largely independent of the cash flows of other utility plant assets. In the Company's case, the assets are grouped by generation, transmission and distribution assets. Management believes that the recorded costs of its long-lived assets are recoverable.

In 1998 and 1999, the Company continued its analysis of the recoverable value associated with two thermal plants that were halted during construction. In performing this analysis, the Company considered a variety of potential available options for the ultimate disposal or usage of these assets. As a result of the discussions to-date the Company reduced the carrying value to an amount that could be recoverable on ultimate disposal and approximating salvage value. The carrying value of these assets, net of reserves, was approximately lire 120 billion as of December 31, 1999. During 2000, the Company classified the amount of these assets, net of reserves, among the inventory balance in view of an utilisation in the international operations of Enelpower. As a result, the Company wrote-off the book value of the assets and associated reserves in 2000 (see Notes 7 and 13).

(i) Stock-Based Compensation

The Company accounts for all stock-based compensation issued under the provision and related interpretation of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company intends to continue to apply APB No. 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS No. 123.

In 2000, the Company launched the Stock Option Plan of 2000. Options under this plan are earned if certain target prices, or other criteria, are met. Since certain targets were not achieved, a portion of the options were cancelled in 2000. The status of the stock options granted under the Stock Option Plan of 2000 is as follows:

Number of	Average
<u>Options</u>	<u>Grant Price</u>
	(euro)

Outstanding at January 1, 2000.....	-	-
Granted.....	19,690,000	4.30
Exercised.....	-	-
Canceled.....	<u>(8,663,600)</u>	4.30
	2	
Outstanding at December 31, 2000.....	11,026,400	4.30
	=====	

The average fair value of options granted during 2000 was approximately euro 0.47 per share. The fair value of each option grant is estimated using a standard Black-Scholes option pricing model with the following weighted-average assumption used for estimating fair value:

Future dividends per share.....	euro 0.13
Risk-free interest rate.....	4.77%
Expected life.....	2.5 years
Expected volatility.....	22%

The following table summarizes certain information for the options outstanding at December 31, 2000:

<u>Options Outstanding</u>				<u>Options exercisable</u>	
Range of <u>Grant Prices</u> (euro)	Weighted Average Remaining <u>Options</u>	Weighted Average Grant <u>Life</u>	Weighted Average Grant <u>Price</u> (euro)	Weighted Average Grant <u>Options</u>	<u>Price</u> (euro)
4.30	11,026,400	2.5 years	4.30	-	-

The Company's pro forma earnings per share for the year ended December 31, 2000, had compensation costs been recorded in accordance with SFAS No. 123, are presented below (billions of lire, except per share amounts):

	<u>As Reported</u>	<u>Pro Forma</u>
Net income.....	3,565	3,555
Basic and diluted earnings per share.....	294	293

The effects of applying SFAS No. 123 in this pro forma disclosure should not be interpreted as being indicative of future effects.

(j) Pension and Other Postretirement Benefit Costs

Certain employees of the ENEL Group are covered under pension plans, which allow for retirement benefits based upon compensation and years of service (see Notes 2 and 12). In accordance with SFAS No. 87, the Company accrues the amount due to each employee at year-end based upon these dates and certain assumptions.

Certain employees of the ENEL Group are also covered under certain other postretirement benefit plans (see Note 2). In accordance with SFAS No. 106, the Company accrues the amount due to each employee at year-end based upon these dates and certain assumptions.

The following table displays the assumptions used for pension and other postretirement benefits costs, a reconciliation of the benefit obligations, plan assets and funded status of the plans:

Weighted Average Assumptions as of December 31:

	Pensions Benefits		Other Postretirement Benefits	
	1999	2000	1999	2000
Discount rate	5.0%	5.5%	5.0%	5.5%
Expected long term rate of return on plan assets	N/A	N/A	N/A	N/A
Rate of compensation increase	3.0%	3.5%	N/A	N/A

Change in Benefit Obligation:

	1999	2000	1999	2000
	(billions of lire)			
Benefit obligation at January 1	7,438	5,870	1,959	2,096
Service cost	281	286	52	24
Interest cost	327	270	87	102
Actuarial (gain) loss	(4)	(151)	91	(156)
Curtailment cost	-	(206)	-	-
Benefit paid from corporate assets	(2,172)	(1,863)	(93)	(90)
Benefit obligation at December 31.....	5,870	4,206	2,096	1,976

Reconciliation of Funded Status of the Plans:

Funded (unfunded) status	(5,870)	(4,206)	(2,096)	(1,976)
Unrecognized net (gain) loss	1,460	1,033	91	(66)
Unrecognized net transition obligation	(125)	(102)	-	-
Prepaid (accrued) benefit cost	(4,535)	(3,275)	(2,005)	(2,042)
Adjustment for minimum liability	(965)	(590)	-	-
Amount recognized in Balance Sheet	(5,500)	(3,865)	(2,005)	(2,042)

Components of Net Periodic Benefit Cost:

Service cost (net of employee contribution)	281	287	52	24
Interest cost	327	270	87	102
Net amortization and deferral	51	46	-	-
Net periodic benefit cost	659	603	139	126
Curtailment gain	-	(45)	-	-
Settlement cost	45	251	-	-
Total cost accrual	704	809	139	126

Change in Plan Assets:

There are not assets with respect to any of the plans

(27) SUBSEQUENT EVENTS

Acquisition of Infostrada

In March 2001, the Company acquired from Vodafone Group all of the outstanding shares of Infostrada, one of Italy's leading providers of fixed line telecommunications services and the owner and operator of one of Italy's leading internet portals. The Company used the purchase method of accounting to account for the acquisition, and accordingly, the results of operations of Infostrada will be presented for the periods subsequent to the date of its acquisition.

Stock Option Plan of 2002

In April 2001, the Company issued a new stock option plan ("Plan 2001") granting 68,548,100 stock options to certain managers. The right to exercise the options shall vest and be exercisable if the Company's average share price exceeds certain predetermined target market prices, or other alternative criteria established by the Board of Directors.

Dividend

At the Company's shareholders' meeting on May 25, 2001, the shareholders approved the Board of Directors' proposal to pay an aggregate dividend of lire 3,056 billion, or lire 252 per ordinary share, in respect to the year ended December 31, 2000.