

# 20-F



**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, 2001**

**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 Euro 1 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.

**6,063,075,189 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 ☒

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



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## SIGNATURES

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## 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 Consiglio Nazionale dei Dottori Commercialisti e dei 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 25 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 Euro. 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. From January 1, 1999 through December 31, 2001, the lira existed solely as a subdivision of the Euro and the Euro existed in electronic form only. During such period, non-cash transactions were conducted in either Euro or lire. Euro notes and coins were circulated for the first time on January 1, 2002. Beginning as of March 1, 2002, only Euro notes and coins are legal tender in Italy and the other participating member states and the lira has ceased to exist.

To facilitate a comparison, the Consolidated Financial Statements included in Item 18 and all other lire-denominated financial data for periods prior to January 1, 2001 included in this annual report have been restated from lire to Euro at the fixed rate as of December 31, 1998 established by the European Central Bank of Lit. 1,936.27 = Euro 1.00.

For convenience only and except where we specify otherwise, we have translated certain Euro figures into dollars at the rate of Euro 1.00 = \$ 0.8901, 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 31, 2001, the date of the most recent balance sheet included in this annual report. By including convenience currency translations in this annual report, we are not representing that the Euro amounts actually represent the dollar amounts shown or could be converted into dollars at the rates indicated. On June 28, 2002, the noon buying rate for Euro was \$ 0.9856 = Euro 1.00. For information about the rate of exchange 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 <sub>x</sub> .....	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 <sub>2</sub> as fuel oil of equivalent energy value.
SO <sub>2</sub> .....	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 2001 was 169.1 TWh, including 12.2 TWh generated by Elettrogen and Valgen, two of our former generating companies, before they were divested during 2001 and 20.9 TWh generated by Eurogen, the generating company that we sold in May 2002. The decrease of 7.4% or 13.4 TWh in our net production as compared to 2000 was primarily attributable to these divestitures. Based on data provided by the *Gestore della Rete*, the government-owned entity that manages the Italian electricity grid, we estimate that such production represented 63.5% of Italian net production during 2001. We estimate that, in terms of the amount of electricity sold in the year 2001, we were the fourth-largest electric utility in Europe. According to Bloomberg, based on market capitalization, we were the second-largest publicly traded electric utility in Europe. Based on revenues, we are one of the largest industrial companies in Italy, with operating revenues of Euro 28,781 million, or approximately \$ 25,618 million, in 2001. We earned net income of Euro 4,226 million, or \$ 3,762 million, in 2001.

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 led by WIND S.p.A. as one of our core businesses, most recently acquiring Infostrada S.p.A., one of Italy's leading alternative providers of fixed line telecommunications services, in March 2001. Our strategy to diversify our operations further is based on cross-selling to our base of almost 30 million Italian electricity customers other utilities such as gas and water by exploiting the value of our existing assets and experience in order to establish ourselves as a multi-service 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, whose standards differ in certain important

respects from U.S. GAAP. For an explanation and quantification of such differences, see notes 25 and 26 to our consolidated financial statements included herein.

	1997	1998	1999	2000	2001	2001(2) (dollars in millions, except per share amounts)
(Euro in millions, except per share amount) (1)						
<b>Consolidated Statement of Income Data</b>						
<i>Amounts in accordance with Italian GAAP:</i>						
Operating revenues .....	€ 20,460	€ 20,549	€ 20,960	€ 25,109	€ 28,781	25,618
Operating expenses:						
Depreciation and amortization .....	2,941	3,117	3,203	3,459	4,459	3,969
Other .....	13,032	12,472	12,372	16,897	20,844	18,553
Total operating expenses .....	15,973	15,589	15,575	20,356	25,303	22,522
Operating income .....	4,487	4,960	5,385	4,753	3,478	3,096
Financial income (expense) .....	(1,135)	(764)	(584)	(648)	(1,110)	(988)
Equity losses(3) .....	—	—	(227)	(458)	(85)	(76)
Extraordinary income (expense)(4) ..	(572)	(468)	(547)	192	2,318	2,063
Income before taxes .....	2,781	3,727	4,027	3,839	4,601	4,095
Income taxes .....	1,063	1,514	1,683	1,649	649	577
Net income .....	€ 1,718	€ 2,213	€ 2,345	€ 2,188	€ 4,226	3,762
Earnings per share(5) .....	€ 0.14	€ 0.18	€ 0.19	€ 0.18	€ 0.70	0.68
Number of shares outstanding (in millions) .....	12.126	12.126	12.126	12.126	6.063	-
<i>Amounts in accordance with U.S. GAAP(6):</i>						
Operating revenues .....	€ 20,453	€ 20,539	€ 21,053	€ 26,432	€ 28,781	25,618
Depreciation and amortization .....	2,668	2,956	3,064	3,485	4,478	3,986
Operating income (7) .....	4,293	4,486	5,102	4,065	3,641	3,241
Income before taxes (7) .....	3,323	3,746	4,228	3,125	3,965	3,529
Net income .....	1,641	1,823	2,295	1,841	3,688	3,282
Earnings per share(5) .....	€ 0.14	€ 0.15	€ 0.19	€ 0.15	€ 0.61	0.54

See notes on next page.

	As of December 31,					
	1997	1998	1999	2000	2001	2001 (2)
	(Euro in millions) (1)					(dollars in millions)
<b>Consolidated Balance Sheet Data</b>						
<i>Amounts in accordance with Italian GAAP:</i>						
Fixed assets, net.....	€ 39,329	€ 39,089	€ 37,914	€ 35,744	€ 35,004	31,157
Current assets.....	7,008	6,524	6,193	9,456	11,902	10,594
Total assets.....	47,854	46,780	45,017	49,633	63,190	56,245
Current liabilities.....	8,080	11,275	10,796	15,621	19,164	17,058
Short-term debt(8).....	2,628	5,412	3,481	6,406	7,107	6,326
Long-term debt(9).....	14,708	8,780	8,760	7,984	16,072	14,306
Shareholders' equity.....	16,793	18,530	17,577	18,312	20,966	18,662
<i>Amounts in accordance with U.S. GAAP(6):</i>						
Fixed assets, net.....	€ 38,732	€ 38,714	€ 37,709	€ 37,403	€ 36,035	32,075
Total assets.....	47,697	46,821	45,341	54,535	63,799	56,788
Short-term debt(8).....	2,628	5,412	3,481	6,406	7,107	6,326
Long-term debt(9).....	14,708	8,780	8,760	10,301	16,072	14,306
Shareholders' equity.....	16,644	17,965	16,989	17,438	19,467	17,327

	As of December 31,					
	1997	1998	1999	2000	2001	2001 (2)
	(Euro in millions) (1)					(dollars in millions)
<b>Consolidated Cash Flow Data</b>						
<i>Amounts in accordance with Italian GAAP:</i>						
Net cash provided by operating activities .....	€ 4,128	€ 7,875	€ 6,978	€ 4,900	€ 6,164	5,486
Net cash used in investing activities .....	(2,605)	(2,975)	(2,351)	(3,429)	(8,666)	(7,714)
Net cash (used in) provided by financing activities .....	(1,419)	(3,626)	(5,571)	(1,510)	2,598	2,312
<i>Amounts in accordance with U.S. GAAP(6):</i>						
Net cash provided by operating activities .....	4,287	7,935	7,010	4,937	5,554	4,944
Net cash used in investing activities .....	(2,764)	(3,035)	(2,383)	(3,468)	(8,707)	(7,750)
Net cash (used in) provided by financing activities .....	(1,419)	(3,626)	(5,571)	(1,509)	3,249	2,892

	As of December 31,				
	1997	1998	1999	2000	2001
<b>Operating Data (unaudited)</b>					
Gross installed capacity (MW).....	58,223	58,906	59,418	58,967	52.0 (10)
Generation (TWh)(11).....	177.2	179.5	178.8	182.5	169.1 (12)
Sales to final customers (TWh).....	219.3	226.2	230.5	222.9	206.0
Customers (millions).....	29.0	29.3	29.7	29.9	29.8
Employees .....	88,957	84,938	78,511	72,647	72,661 (13)

(1) Lire amounts relating to the fiscal years 1997 to 2001 have been translated into Euro amounts at the fixed rate of Lit. 1,936.27 = €1.00.

(2) We have translated Euro amounts into dollar amounts at the noon buying rate for Euro on December 31, 2001 of €1.00 = \$ 0.8901.

(3) Under Italian GAAP, for the year ended December 31, 1999 and 2000, we accounted for our investment in WIND S.p.A., the lead company of our telecommunications segment, under the equity method of accounting. We have consolidated WIND on a line-by-line basis since January 1, 2001. 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. For purposes of U.S. GAAP, we have consolidated WIND since January 1, 2000.

(4) You should read note 25 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. 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, 2001, the Treasury Ministry owned approximately 68% of our ordinary shares. You should consider that our share capital was Lit. 12,126,150,379,000 (corresponding to Euro 6,262,634,018) divided into 12,126,150,379 shares with a par value of each share of Lit. 1,000 (corresponding to Euro 0.52) until July 9, 2001 the date on which both the re-denomination of our share capital in Euro and the one-for-two reverse stock split became effective. As a result of the re-denomination and the reverse stock split, our share capital is now Euro 6,063,075,189, divided into 6,063,075,189 shares, each with a par value of Euro 1.

(6) For information concerning differences between Italian GAAP and U.S. GAAP that are relevant to our consolidated financial statements, you should read notes 25 and 26 to our consolidated financial statements.

(7) Operating income under U.S. GAAP in 2000 and 2001 is affected by the different treatment under U.S. GAAP of extraordinary contributions to the national pension system (Euro 577 million and Euro 523 million, respectively). See note 25 to our consolidated financial statements.

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

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

(10) Including 7,346 MW owned by Eurogen, the generating company that we sold in May 2002.

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

(12) Including 12.2 TWh generated by Elettrogen and Valgen before they were divested during 2001, and 20.9 TWh generated by Eurogen.

(13) The number of employees relating to 2001 includes 8,428 employees from our telecommunications segment.

## Exchange Rates

The following table shows, for the periods indicated, information concerning the exchange rate between the U.S. dollar and the Euro. Amounts for the period from 1997 through 1998 (before the adoption of the Euro) have been calculated based on the noon buying rates for the Italian lira, converted into Euro at the offered fixed conversion rate of €1 = Lit. 1936.27 and expressed in dollars per Euro. These rates are provided solely for your convenience. We do not represent 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>
<b><i>U.S. dollars per Euro(1)</i></b>				
1997.....	1.0946	1.1310		
1998.....	1.1707	1.1147		
1999.....	1.0070	1.0588		
2000.....	.9388	.9207		
2001.....	.8901	.8909		
Month ended				
December 31, 2001.....			.9044	.8773
January 30, 2002.....			.9031	.8594
February 28, 2002.....			.8778	.8613
March 31, 2002.....			.8836	.8652
April 30, 2002.....			.9028	.8750
May 31, 2002.....			.9373	.9022

(1) 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 market 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=Euro 1.00.

On June 28, 2002 the noon buying rate for the Euro was \$ 0.9856 = Euro 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, in 2001 we acquired Infostrada, one of Italy's leading alternative providers of fixed-line telecommunications and Internet services at the time. You should read "—Risks Related to our Telecommunications Business".

We have also acquired a number of natural gas distributors with operations in various Italian regions during the past three years, including Camuzzi Gazometri S.p.A., one of the largest alternative gas distributors in Italy. See "Item 4. Information on the Company—Business—Other Businesses—Gas". Our entry into the gas sector exposes us to risks relating to market regulation of the gas sector in Italy, which is also being liberalized.

We are also seeking to expand our water operations, principally by participating in competitive tenders for water distribution services. 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.

Our business strategy also includes expanding our operations outside of Italy. In 2002, we entered Spain's electricity market through the acquisition of Electra de Viesgo, one of the leading Spanish electricity generation and distribution companies. Please refer to "Item 4. Information on the Company—The Enel Group—Generation" for further information. Our acquisition of businesses in new markets requires us to become familiar with new markets and competitors, and exposes us to relevant commercial and other risks, as well as new regulatory regimes.

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, have caused us to increase our level of indebtedness and have otherwise affected our financial condition.**

Our acquisition of Infostrada will have a significant effect on our results of operations and financial condition going forward, 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 Euro 7,631 million of goodwill. Under Italian GAAP, we will have to amortize this goodwill on a straight line basis over a period of 15 years. We began this process in 2001, when we amortized Euro 382 million over the nine-month period from the date of the acquisition to the end of the year. You should read “Item 4. Information on the Company—Business—Telecommunications—The Acquisition of Infostrada” 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 from 1999 to 2001 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 requires us to dispose of our distribution operations in certain municipalities. We have already completed the sale of our distribution networks in Rome and Formello, Turin, Trieste, Cremona and Parma. In 2002, we may be required to dispose of additional municipal networks that currently account for approximately 1.8% 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 the second half of 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 has significantly reduced 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 tariff regime that originally took effect on January 1, 2000. This has resulted in, and will continue to result in, significant reductions in our tariff revenues. Lower fixed tariff rates for the generation, transmission and distribution of electricity were applied in 2000. A price cap further reducing fixed tariffs for transmission and distribution was first applied in 2001 and will continue to apply in 2002 and 2003. Effective January 1, 2002, the Energy Authority set transmission and distribution charges for Eligible Customers equal to those paid by Non-Eligible Customers. 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 tariffs for electricity generation in 2001. As a result of these changes in the tariff framework, average tariffs for sales of electricity to Non-Eligible Customers declined by approximately 10.7% in 2000 and 10.4% in 2001. 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, the mix of types of electricity we sell, and the type of 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 and 2001 were in line with the estimates used by the Energy Authority. These figures are Energy Authority 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 changes in the 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 tariff regime.

**Our ability to recover stranded costs may be limited by future regulation.**

Under Italian law, we are entitled to recover a significant portion of our stranded costs, or costs derived from contractual commitments or investment decisions that were made for public policy reasons when electricity markets were not yet open to competition, and that could have been recovered under a monopoly regime but can not be recovered under a regime of competitive electricity pricing. The maximum total amount available to Italian electricity companies for recovery as stranded costs under current law is Euro 7.7 billion. Based on the current calculation mechanism, the reimbursable amount of stranded costs may be determined only at the end of the complete reimbursement period (2000-2006) and not for each fiscal year.

The stranded costs recovery system currently in effect could be amended or eliminated altogether by an act of Parliament. The Energy Ministry introduced draft legislation to eliminate the recovery system during 2002. The draft legislation also includes certain measures, such as the abolition of the surcharge to be paid by hydroelectric or geothermal producers, that, if adopted, would partially offset the impact of any abolition of the stranded costs recovery system. The abolition of the stranded costs recovery system, if not offset by other measures, would likely 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 tariff structure—Stranded Costs” for a more detailed description of the stranded costs recovery plan.

**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 compliance with the applicable regulations, in September 2001 and May 2002 we sold Elettrogen and Eurogen, the first two of the three generating companies to which we transferred the generating capacity we selected for disposal, which we call the Gencos. In April 2002, we started the auction process for the sale of the third Genco, Interpower, which we expect to complete in the second half of 2002. 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 2001, approximately 9.9% of our total revenues and approximately 10% of our earnings before interest, taxes, depreciation and amortization were related to the three Gencos. As a consequence of our disposal of the three Gencos, our operating profits will decline unless we are able to offset the decrease in sales 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.

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. This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada and what effect they will have on our results of operations (see “Item 4. Information on the Company—Business—Telecommunications—The Acquisition of Infostrada”).

## **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. Although we closed the sale of Elettrogen and Eurogen on terms that we believe were favorable to us, as a result of the statutory constraints, we may have to sell Interpower at a price and on 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.

In compliance with the Bersani Decree, we sold our distribution networks in certain municipalities, including Rome and Formello, Turin, Trieste, Cremona and Parma, to qualifying distribution companies that requested us to do so. Please read "Item 4. Information on the Company—Business—The Enel Group—Consolidation of electricity distribution networks" for further information. We also received requests for the sale of our distribution networks from an additional 46 qualifying distribution companies, including those active in Milan and Verona. Based on our results for 2001, we estimate that the networks in question accounted for approximately 1.8% of our distribution customers, 1.8% of our total annual distribution of electricity to final customers, 2.4% of our annual revenues and approximately 3% 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 2002, 14 of the qualifying companies have issued a formal demand for price arbitration, including those active in Milan 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. In the case of Milan, the arbitration panel set the sale price of our network at Euro 423 million. We have appealed this decision before the Tribunal of Milan, where the matter is pending. We recently reached an agreement in principle to sell our Milan distribution network at the price determined by the arbitration

panel, with the understanding that the purchase price is subject to adjustment to reflect any decision of the Tribunal of Milan on the value of the network.

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 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 our investments 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 Euro 3,800 million in the period 2002-2006 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 (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), carbon dioxide (CO<sub>2</sub>) 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 Euro 1,330 million (including environmental taxes) in 2001 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 SO<sub>2</sub> and NO<sub>x</sub> emissions in generation and to install underground cables in our distribution network. In addition, we also incurred approximately Euro 800 million in 2001 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. The disposal of the Gencos exposes us to increasing competition from other operators of electricity generating capacity. Our competitors in the generation business also include independent power producers and municipal utilities. 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. In 2001, the government mandated the transfer to the free market of approximately 37 TWh hours of “CIP 6” electricity produced from renewable resources and lowered consumption thresholds for Eligible Customer qualification, thus increasing the number of customers able to participate in the free market. We expect that competition will increase further due to:

- The introduction of the pool market, on which prices will be determined by competitive bidding;
- Our disposal of Interpower, which we expect to complete by the end of 2002; and
- The restrictions on individual operators’ access to international electricity sources established by the Energy Authority.

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. 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. In 2001, our fuel costs decreased by approximately 15% compared to 2000. However, in 2000, our fuel costs had increased by approximately 73% compared to 1999, reflecting significantly higher market prices for energy, particularly fuel oil. Substantial price increases or the unavailability of adequate supplies of fuel in the future 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 2001, approximately 27% 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**

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

As of January 1, 2002, we merged Infostrada into WIND. We are now integrating the operations, infrastructure, personnel and services of Infostrada with those of WIND. The difficulties of integration may be increased by the necessity of coordinating the operation of two networks which overlap in some locations, and of combining sales and marketing efforts. Failure to successfully complete this integration process could place an excessive strain on WIND's management, cause customer dissatisfaction, lead to inefficient operations and increase our capital expenditures related to our investment in WIND.

**WIND'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 its ability to provide competitive services.

In late 2000, WIND made an initial payment of Euro 2,066 million 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 Euro 361.5 million in respect of its license over the next nine years. UMTS technology and UMTS-related services, however, are not yet fully tested. 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 2001, WIND entered into a syndicated loan for a total amount of Euro 5,500 million to refinance Euro 3,700 million of debt (including debt it incurred to pay for the UMTS license) and pay for new investments in high-speed broadband technology, and another syndicated loan for a total amount of Euro 1,500 million to refinance debt incurred by Infostrada to finance its capital expenditures. Under these syndicated loans, WIND would be considered in default and required to make repayments if it does not meet certain operating targets. Any default on these loans is likely to adversely affect WIND's ability to implement its strategy.

WIND expects that competition for resources and infrastructure needed to develop new telecommunications technologies will intensify. As new technologies develop, WIND may be placed at a competitive disadvantage and competitive pressures may force it to implement these new technologies at a substantial cost. If WIND is 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 WIND do not achieve a significant degree of market acceptance, WIND could experience a material adverse effect on respective operating results.

**WIND faces increasing competition.**

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

In fixed-line telephony, WIND competes 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 also faces competition from a rapidly growing number of other fixed-line operators that, like WIND, 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 Vodafone Omnitel, the two leading wireless operators in Italy. WIND expects further competition from two new mobile operators which, along with Telecom Italia Mobile, Vodafone Omnitel and WIND, successfully bid for UMTS licenses for third generation mobile telephony services in 2000.

WIND also faces 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 principal competitor, has greater financial resources, more developed infrastructure and a larger market share than WIND. In order to compete effectively with existing competitors and any new entrants, WIND may be required to reduce its tariffs further and make additional capital expenditures to develop its services; subsequent reductions in revenues or increases in costs could have a material adverse impact on WIND's operating results.

**WIND relies on agreements with other fixed-line and mobile telephone carriers to provide telephone services.**

WIND depends on its interconnection agreement with Telecom Italia's network to provide indirect access for its fixed-line telephone services and on its ability to lease lines from Telecom Italia in order to provide direct access for certain of WIND's largest corporate clients. WIND also relies on interconnection and roaming agreements with other telephone operators, including international carriers, in order to expand the scope and range of its telephony services. WIND's ability to operate its networks and offer services to its customers may be adversely affected if the access to the network of Telecom Italia or any of the other carriers with which WIND has such an agreement is offered solely on economic terms that do not make it financially attractive for WIND to offer direct access to their customers.

**WIND may not be able to expand its fixed-line business as planned if it does not implement access to the local loop on a timely basis.**

WIND plans to offer direct access to its fixed-line customers as a result of the unbundling of the local loop, a process whereby Telecom Italia is required to give alternative carriers such as WIND access to the "local loop", Telecom Italia's "last-mile" connections that include the wires leading to a customer's home or office. Telecom Italia has begun to offer other operators access to the local loop under the conditions established by the Communications Authority. In 2001, WIND launched direct access services to its fixed-line customers in a very limited number of areas, following the initial stages of the unbundling of the local loop.

Any delay in the expansion of our access to Telecom Italia's local loop may adversely affect WIND's operations and results. WIND may also be adversely affected if the economic

terms and conditions at which access to the local loop is offered do not make it financially attractive for WIND to offer direct access services to its customers.

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

WIND requires government licenses and authorizations for rights of way to build out its networks. We cannot assure you that WIND will be able to obtain new licenses or authorizations or renew those that expire, in which case WIND will have to alter its plans for the development of the network. WIND 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. 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.

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

We believe that WIND's growth and future success will depend in large part on its 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 73.42% of WIND's shares, WIND's by-laws and our shareholder agreement with France Télécom effectively require that we and France Télécom agree on major business and strategy decisions. We can give you no assurance that we and France Télécom will agree on such matters in the future. Our failure to reach an agreement with France Télécom 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 Télécom on certain of these matters, we may be required to buy France Télécom's shares in WIND, and in some cases, to pay a premium to France Télécom above the shares' market value. Our agreements also provide for a put option in the event of a deadlock between France Télécom 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—Agreements with France Télécom" 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 that 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 Euro 1,808 million. 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.

## **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.

As 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 may directly appoint 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 our ordinary shares and American Depositary Shares, or 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 Euro; 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;
- Anticipated trends in our businesses, 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 changes in electricity tariffs;
- The disposal by January 1, 2003 of Interpower and any other required disposals of our assets;
- 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 in the second half of 2002;
- Developments affecting our telecommunications segment, including changes in the market environment, technology and regulation;
- 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 most recent date for which complete data is available, 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., now our joint venture with France Télécom 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; Enel Green Power S.p.A. (previously called 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); Enelpower S.p.A., which provides power-related engineering and construction services, primarily in developing markets; Enel Real Estate S.p.A. (previously called SEI S.p.A.), which provides commercial real estate management services; Enel.it S.p.A., 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 Euro 16.55 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 trading 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 water distribution (through Enel.Hydro S.p.A.), and gas distribution (through several independent gas distributors we have acquired). In order to expand and complement our existing telecommunications business operated by 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. In July 2001, Enel contributed Infostrada to WIND, and, as of January 1, 2002, Infostrada was merged into WIND.

For a description of our capital expenditures in each of the last three fiscal years, please refer to “—Business—The Enel Group—Capital Investment Program”.

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. We are in the process of divesting a portion of our generating capacity to comply with Italian law regarding the liberalization of the electricity sector. Our net electricity production in 2001 was 169.1 TWh., including 12.2 TWh generated by Elettrogen and Valgen, two of our former generating companies, before they were divested during 2001 and 20.9 TWh generated by Eurogen, the generating company that we sold in May 2002. The decrease of 7.4% or 13.4 TWh in our net production as compared to 2000 was primarily attributable to these divestitures. Based on data provided by the *Gestore della Rete*, we estimate that such production represented 63.5% of Italian net production during 2001. We estimate that, in terms of the amount of electricity sold in the year 2001, we were the fourth-largest electric utility in Europe. According to Bloomberg, based on market capitalization, we were the second-largest publicly traded electric utility in Europe. Based on revenues, we are one of the largest industrial companies in Italy, with operating revenues of Euro 28,781 million, or approximately \$ 25,618 million, in 2001. We earned net income of Euro 4,226 million, or \$ 3,762 million, in 2001.

We produce the majority of all electricity generated in Italy through our generation segment, which consists of Enel Produzione S.p.A., our primary generating company, Enel Green Power S.p.A., which specializes in producing electricity from renewable resources, and Interpower S.p.A. As of December 31, 2001, we had 692 generating plants (including 52 plants owned by Eurogen), consisting of thermal, hydroelectric, geothermal and other renewable resources facilities, which, based on data provided by the *Gestore della Rete*, we estimate represented approximately 66% of the total gross installed capacity in Italy as of December 31, 2001. In 2001, 75.9% of our net production was from thermal plants, 21.6% was from hydroelectric plants and the remaining 2.5% was from geothermal and other

renewable resources plants. We no longer own or operate any nuclear plants. As explained in more detail below, Italian legislation designed to liberalize the electricity market requires us to dispose of approximately of 15,000 MW of our generating capacity by the end of 2002. We are meeting this requirement through the disposal of the three newly formed companies we call the Gencos, Eurogen S.p.A., Elettrogen S.p.A. and Interpower S.p.A., which own generating plants having a net installed capacity totaling approximately 15,000 MW. We completed the sale of Elettrogen and Eurogen in September 2001 and May 2002, respectively, and are in the process of disposing of Interpower through an auction process.

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. As of December 31, 2001, that transmission system consisted of a total of 37,218 km of lines and 268 primary transformer stations.

Through Enel Distribuzione S.p.A., we are the largest electricity distributor in Italy. In 2001, we provided electricity to approximately 23 million households or approximately 90% of all households in Italy. Of the 168.2 TWh of electricity we sold to the final customers in the regulated market in 2001, approximately 31% went to industrial customers, 33% to customers in the commercial and other services sector, 33% to residential customers and 3% to the agricultural sector. We also distributed a total of 77.2 TWh of electricity to Eligible Customers participating in the free market and sold to other distributors or exported an aggregate of 10.8 TWh of electricity during the year. At December 31, 2001, our distribution network consisted of a total of 1,060,240 km of lines, mostly medium and low voltage, and 407,291 primary and secondary transformer substations, with a total transformer capacity of 151,222 MVA. As described in more detail below, 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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Gross installed capacity at period end (GW).....	58.2	58.9	59.4	58.9	52.0
Net production (TWh).....	177.2	179.5	178.8	182.5	169.1 (1)
Electricity sold to final customers and to municipal distributors (TWh).....	219.3	226.2	230.5	222.9	206.0
Electricity customers at year end (millions) .....	29.0	29.3	29.7	29.8	29.8

(1) Including 12.2 TWh generated by Elettrogen and Valgen before they were divested.

Our most significant business outside of our core electricity operations is WIND, our telecommunications joint venture with France Télécom. As of March 31, 2002, WIND provided integrated fixed-line, mobile telephony and Internet services to a customer base in Italy comprising approximately 25.2 million lines, including approximately 10 million registered users for its Internet access services. On March 29, 2001, we acquired Infostrada which, at the time, was one of Italy's leading alternative providers of fixed-line telecommunications services and one of Italy's leading Internet service providers. In January 2002, we merged Infostrada into WIND. Please refer to “—Telecommunications— The Acquisition of Infostrada” for a more detailed discussion of the Infostrada transaction.

In accordance with our multiservice strategy, we are also diversifying into other businesses. We acquired several gas distribution companies with operations in various Italian regions during the past three years, including Camuzzi Gazometri S.p.A., one of the largest alternative gas distributors in Italy. Together, our acquisitions of gas companies have provided us with access to an aggregate of approximately 1.66 million natural gas customers as of December 31, 2001. We are also in the process of consolidating our distribution and sales activities into Enel Distribuzione Gas S.p.A. and Enel Vendita Gas S.p.A., respectively.

We are also diversifying into water distribution, as well as developing our engineering and construction and real estate services and our public lighting, electricity systems-related services, information technology, and fuel trading and logistics resources.

We are also expanding our operations outside of Italy. Our largest operation abroad is Electra de Viesgo, an electricity generation and electricity distribution company in Spain, with a gross installed of 2,365 MW and approximately 510,000 electricity customers, which we acquired on January 8, 2002.

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

<b>Name</b>	<b>Principal Business</b>	<b>Country of Incorporation</b>	<b>Group Percentage Ownership</b>
Enel S.p.A.	Holding Company	Italy	
Enel Produzione S.p.A.	Electricity power generation	Italy	100%
Interpower S.p.A.	Electricity power generation	Italy	100%
Enel Green Power S.p.A.	Electricity power generation from renewable geothermal and alternative sources	Italy	100%
CHI Energy Inc.	Electricity power generation from renewable sources	U.S.A.	100%
Energia Global International Ltd.	Electricity power generation from renewable sources	Bermuda	100%
Elettroambiente S.p.A.	Electricity power generation from waste products	Italy	70.48%
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	Italy	100%

	water distribution networks		
Enel Real Estate 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%
Enel Distribuzione Gas S.p.A.	Natural gas distribution	Italy	100%
Electra de Viesgo S.L.	Electricity power generation and distribution	Spain	100%
Enel Vendita Gas S.p.A.	Sales of natural gas	Italy	100%
Deval S.p.A.	Electricity distribution and sales to Non-Eligible Customers	Italy	51.00%
Camuzzi Gazometri S.p.A.	Natural gas distribution and sales; waste management	Italy	98,58%
CESI S.p.A.	Services and research for the electricity sector	Italy	43.92%
Enel Capital S.p.A.	Venture capital	Italy	100%
APE Gruppo Enel S.p.A.	Personnel administration and related services	Italy	100%
Sfera S.p.A.	Professional training services	Italy	100%
Wind S.p.A.	Telecommunications and Internet services	Italy	73.42%

## Strategy

We intend to capitalize on Enel's achievements in the last five years by:

- continuing to reduce costs, increase efficiency and reduce invested capital in our electricity businesses;
- capitalizing on our broad customer and asset base in order to be a leading player in different markets, such as gas and water, in addition to electricity;
- consolidating our growing telecommunications activities following the acquisition of Infostrada; and
- continuing to selectively implement our 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 electricity tariffs set by the Energy Authority 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 have been 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 88,957 at December 31, 1997 to 72,661 at December 31, 2001. In 2001, we reduced our average headcount in segments other than our telecommunications segment by approximately 7%. As a result of these cuts, in 2001 we reduced our personnel costs by a total of approximately 3%, not taking into account our employees in the telecommunications segment;
- we have implemented cost reduction and management rationalization programs in each of our electricity businesses which we intend to complete in the next few years in order to improve our efficiency and competitiveness.

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 multi-service offering to our broad customer base.

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

- convert approximately 4,500 MW of our net installed capacity to combined cycle gas turbine technology, excluding the plants owned by the Gencos. At December 31, 2001, we had completed the conversion of approximately 800 MW of our installed capacity to combined cycle technology. We expect our conversion plan to be completed by the end of 2005 and to involve investments of approximately Euro 1,450 million, not including investments in the plants owned by the Gencos. These investments will 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 increase the amount of electricity generated from natural gas and low cost fuels such as oil and coal, while continuing to comply with applicable environmental requirements;
- reduce maintenance expenses through the adoption of tailored 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 in the period from 2002 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:

- 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 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 2006, we expect to reduce annual operating costs per TWh in our transmission segment, 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 respond to the challenges of the liberalization of the market by continuing to focus on achieving operating efficiency and providing a high quality of service, while seeking to optimize the utilization of our distribution resources.

- Our cost-cutting program has been supported by an intensive benchmarking program, which has identified a number of opportunities for cost reductions. Between January 1, 2002 and the end of 2006 we plan to reduce our distribution costs per kWh (excluding amortization and depreciation) by approximately 20%;
- We are reducing investment and maintenance costs associated with management of our network, principally by centralizing and optimizing procurement processes through extensive use of e-business platforms.
- We plan to focus a significant portion of our overall investments between 2002 and 2006 on our distribution business, with planned expenditures relating to our distribution network totaling approximately Euro 9,500 million during this period. In particular, we intend:
  - to invest approximately Euro 3,800 million in improving service quality with the goal of exceeding targets established by the Energy Authority, and thereby to qualify to earn performance bonuses established as part of the new regulatory framework; and
  - to complete the establishment of system-wide remote metering. This project, which started in the second half of 2001, involves 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 assisting our final customers remotely and a reduction in costs due to the reduced need for physical measurement of actual electricity consumption by our personnel, as well as providing 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-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 offer distribution services to retail customers, mainly in urban areas. In 2001 and the first half of 2002, 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 1.66 million customers, including more than 986,000 customers of Camuzzi Gazometri S.p.A., which we acquired in March 2002.

The liberalization of the Italian 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 offer distribution services mainly to retail customers through local distributors which we have acquired in the last few years. We also participate in local tenders for managing water-related activities and setting up partnerships with local municipalities and distributors.

***Consolidate our growing telecommunications activities.*** WIND, our joint venture with France Télécom, has experienced very rapid growth. Since the beginning of its commercial activities in early 1999, WIND's customer base has grown to approximately 25.2 million lines as of March 31, 2002, comprising approximately 8 million mobile telephone lines, 7.2 million fixed telephone lines and 10 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 telecommunications 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 alternative fixed-line telecommunications providers and largest Internet service providers at the time. Infostrada's Internet service had approximately 5 million access registered users at December 31, 2001, while its wholly owned subsidiary, Italia Online, owned and managed 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, and has since been merged into Libero portal.

As of January 1, 2002, Infostrada was merged into WIND. We believe that Infostrada's strengths in the fixed-line and Internet businesses complement WIND's strengths in mobile

communications and convergent offerings. We are integrating 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.

***Continue to 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, taking extreme care to select investments that fit into our strategic framework and which we expect to be accretive to our earnings.

We recently entered Spain's electricity distribution market through the acquisition of Electra de Viesgo S.L. (Viesgo), a Spanish electricity generation and distribution company, from Endesa S.A. We believe that this acquisition will allow us to grow further in the Spanish market.

We plan to further implement our international strategy through the acquisition of stakes in integrated electric utilities or power generating companies in the Mediterranean region and in continental Europe. We are also developing our international presence, mainly in North and Central America and in the Far East, through:

- Enel Green Power, our subsidiary specializing in energy produced from renewable resources, which also operates through CHI Energy and Energia Global International, Ltd., or EGI, two power producers specializing in the development of renewable energy sources. CHI Energy has 332.8 MW of generating capacity in operation in North America. EGI operates plants in Central and South America with a gross installed capacity of 144 MW.

- Enel F.T.L., our fuel and trading subsidiary, which recently acquired a 51% interest in Pragma Energy S.A. (previously called 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. Enel F.T.L. also owns the mining rights of Carbones Colombianos de Cerrejon SA, a mining company based in Colombia with coal reserves of approximately 50 million tons.

## The Enel Group

### *Italian Electricity Demand*

Demand for electricity in Italy has grown at an average annual rate of approximately 3.0% 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.

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>Compound Annual Growth Rate 1997- 2001</b>
Growth in real GDP(1).....	2.0%	1.8%	1.6%	2.9%	1.8%	2.0%
Growth in electricity demand(2).....	3.2%	2.9%	2.3%	4.2%	2.3%	3.0%

Sources:

(1) Istat Reports for 1997, 1998, 1999, 2000 and 2001, 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, 2000 and 2001.

Electricity demand grew by 2.3% in 2001, after having grown by 4.2% in 2000. The annual rate of growth in electricity demand in 1999 was less than that in 1998 due in part to a slowing of the Italian economy during the early part of 1999. However, the rate of growth 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%. The decrease in the annual rate of growth in electricity demand to 2.3% in 2001 reflected a slowing of the Italian economy during the year. On the basis of available forecasts of expected growth in Italian GDP, we currently estimate that demand for electricity will grow at an annual rate of 2.7% in 2002 and 2.9% in 2003. 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 2000, electricity consumption in Italy was 4,835 kWh per capita, compared to an average of 6,373 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 2000, the most recent year for which complete data is available.

<b>Inhabitants</b>	<b>Residential Consumption</b>	<b>Per Capita Residential</b>
--------------------	------------------------------------	-----------------------------------

			<b>Consumption</b>
	<b>(in millions)</b>	<b>(TWh)</b>	<b>(kWh/inhabitants)</b>
France.....	58.8	133.0	2,261
United Kingdom.....	59.7	112.6	1,885
European Union.....	576.4	654.9	1,740
Germany.....	82.1	133.6	1,626
Spain.....	39.4	48.2	1,220
Italy.....	57.7	62.9	1,089

Source: Enel's elaboration on data established by Enerdata – World Energy database – February 2002.

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:

	<b>1973</b>	<b>1980</b>	<b>1990</b>	<b>1998</b>	<b>2000</b>
	<b>(percentages)</b>				
Germany.....	29.2	34.0	38.8	37.9	59.4
France.....	22.2	29.5	37.9	41.3	41.8
European Union average.....	25.9	31.2	36.5	35.9	37.5
Spain.....	27.1	33.8	37.2	35.8	36.3
Italy.....	22.8	25.2	32.9	34.4	35.4
U.K.....	31.7	34.8	35.7	35.0	35.0

Source: Enel's elaboration on data established by Enerdata – World Energy database – February 2002.

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. Please refer to “—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. Reserve margin represents the total of net available capacity and guaranteed capacity under contract less peak capacity demand. Data related to 2000 and 2001 have not been published.

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
	<b>(Gigawatts, except percentages)</b>			
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	28.4%	32.2%	32.6%	

demand .....

34.7%

Source: Enel.

## Generation

At December 31, 2001, Enel Produzione and the three other generating companies we then owned, Eurogen, Interpower and Enel Green Power, operated a total of 692 generating plants, including 52 plants operated by Eurogen and 20 plants operated by Interpower. 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, 2001, these plants had a total gross installed capacity of 52.0 GW, representing approximately 66% of the total gross installed capacity in Italy. Our net electricity production in 2001 decreased by 7.3% from 2000, and totalled 169.1 TWh, including 12.2 TWh generated by Elettrogen and Valgen before they were divested in May and June, respectively. In 2001, Eurogen, the generating company we sold in May 2002, generated 20.9 TWh or approximately 12.3% of our net electricity production for the year. Interpower, the third Genco that we expect to sell by the end of 2002, generated 6.4 TWh or 3.8% of our net electricity production for 2001.

We estimate that our net electricity production represented 63.5% of Italian production during the year.

The following table shows the gross installed capacity at December 31, 2001 and the net production in 2001 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.

	At December 31, 2001	2001	
	Gross Installed Capacity (GW)	Net Production (TWh)	Percentage of Italian Production
Enel.....	52.0 (1)	169.1(2)	63.5%
Independent power producers .....	24.0	85.9	32.2
Municipal utilities.....	2.9	<u>11.5</u>	<u>4.3</u>
Total gross installed capacity and net production in Italy .....	<u>78.9</u>	<u>266.5</u>	<u>100.0%</u>
Total net imports into Italy .....		<u>48.4</u>	
Total pumped storage consumption in Italy .....		<u>9.4</u>	
Total demand in Italy .....		<u>305.5</u>	

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

(1) Including 7.4 GW operated by Eurogen and 3.0 GW operated by Interpower.

(2) Including 12.2 TWh generated by Elettrogen and Valgen before they were divested, 20.9 TWh generated by Eurogen, and 6.4 TWh generated by Interpower.

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, 2001 and for the year 2001. The table does not take into account data relating to Elettrogen and Valgen, the two generating companies we divested in 2001. 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, 2001		2001		
	Gross Installed Capacity	Weighted Average Age of Plant	Net Production	Percentage of our Net Production	Forced Outage Factor
	(GW)	(years)	(GWh)		(percent)
Thermal.....	36.1	21	118,559	75.6%	3.2%
Hydroelectric .....	15.2	40	34,099	21.7	1.5
Geothermal and other renewable .....	0.7	11	4,369	2.7	6.2
Total.....	<u>52.0</u>		<u>156,926</u>	<u>100.0%</u>	

On January 8, 2002, we acquired 100% of the outstanding shares of Electra de Viesgo S.L. (Viesgo), a Spanish electricity generation and distribution company, from Endesa S.A. for total consideration of Euro 2,000 million, including Euro 1,870 million in cash and the assumption of Euro 130 million in debt. Viesgo operates 7 thermal plants and 6 hydroelectric plants in Spain with an aggregate gross installed capacity of approximately 2,365 MW.

#### *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 no 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 at that date (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 order to optimize the disposal process, attract the maximum number of potential investors and maximize our proceeds, we have decided to sell the three Gencos sequentially through direct negotiations with potential acquirors. 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 adopt an industrial plan to guarantee the continued operations of the generating plants owned by the Gencos;
- 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 state owned entities of the Gencos' share capital. Please refer to “—Regulatory Matters—Electricity Regulation” for a more detailed description of this process.

We have already divested Elettrogen and Eurogen through auction processes. On September 20, 2001, we sold 100% of the share capital of Elettrogen to a consortium formed by Endesa S.A., ASM Brescia S.p.A. and Banco Santander Central Hispano S.A for total consideration of Euro 3,585 million, including Euro 2,687 million in cash and the assumption of Euro 898 million in debt. On May 31, 2002, we sold 100% of the share capital of Eurogen to Edipower S.p.A., a consortium formed by Edison S.p.A., AEM S.p.A., AEM Torino S.p.A., Aar e Ticino SA di Eletticità (Atel), Unicredito Italiano S.p.A., Interbanca S.p.A. and Albojo Limited for total consideration of Euro 3,808 million, including Euro 3,057 million in cash (which may increase or decrease as a result of the application of the price adjustment mechanism provided by the agreement) and the assumption of Euro 751 million in debt.

In April 2002, we started the auction process for the sale of the third Genco, Interpower, which we expect to complete in the second half of 2002.

The following table provides certain selected operating and financial data for Eurogen and Interpower at December 31, 2001 and for the year then ended, and for Elettrogen at September 19, 2001 (the last date on which we owned it) and for the period between January 1, 2001 and September 19, 2001. The financial data included in the table has been prepared on the basis of Italian GAAP. Financial data related to Elettrogen has not been audited.

	<u><b>Eurogen</b></u>	<u><b>Interpower</b></u>	<u><b>Elettrogen</b></u>
	At December 31, 2001	At December 31, 2001	At September 19, 2001
<u><b>Operating Data</b></u>			
Gross installed capacity of all plants (MW).....	7,346	2,961	5,720
Gross installed capacity of thermal plants (MW) .....	6,580	2,898	4,706
Gross installed capacity of hydroelectric plants (MW) ..	766	63	1,014
Net production 2001 (GWh) .....	20,912	6,436	11,274
Number of employees.....	1,794	934	1,568
Total number of plants.....	52	20	29
Number of thermal plants.....	6	3	5
Number of hydroelectric plants.....	46	17	24

	Year 2001	Year 2001	January 1 – September 19, 2001
<b><u>Financial Data</u></b> <b>(Millions Euro)</b>			
Operating revenues .....	1,569	443	848
Operating income.....	363	84	110
Net income .....	149	31	22
Total net assets.....	1,029	354	1,193

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, Euro 4,235 million of assets and Euro 3,305 million of liabilities.

The Gencos operate 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 Gencos, we expect our gross installed capacity will decrease to approximately 52% of total Italian gross installed capacity from approximately 66% in 2001 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 had 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. This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different those conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada.

In addition to the disposal of the generating capacity discussed above, we sold Valgen, a company operating all of our hydroelectric power plants in the Valle d'Aosta, to the Regional Authority of that region in June 2001. Valgen operated plants having an aggregate gross capacity of 781 MW. See “—Hydroelectric production” for further information.

## *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 2001, the Bersani Decree would require us to provide approximately 2.5 TWh of electricity from renewable resources in 2002. Our current capital investment plan provides for an aggregate increase in our gross installed capacity for production from renewable resources by the end of 2002 of approximately 165 MW (135 MW from geothermal and hydroelectric resources and 30 MW from wind plants). As a result, we currently expect to produce 2.68 TWh of electricity from qualifying renewable resource capacity in 2002, the first year the requirements apply, and approximately 7.00 TWh in 2003. Should our actual production from renewable resources not meet these targets, 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, 2001, we owned 53 thermal plants with an aggregate gross installed capacity of 36.1 GW, or approximately 69% of our gross installed capacity at that date. In 2001, our thermal net production was 128,320 GWh, or approximately 75.9% of our net production for the year, including 9,761 GWh generated by Elettrogen before it was divested.

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, 2001, approximately 86% of the gross installed capacity of our thermal plants consisted of steam-condensing units and approximately 13% of that capacity was represented by gas-turbine units. Internal combustion units represented approximately 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 2001, single fuel units, the vast majority of which are petroleum powered, generated approximately 49% of our net production from thermal plants and represented approximately 34% of the gross installed capacity of these plants at year end. Dual fuel units accounted for approximately 41% of our net production from thermal plants and approximately 56% of our gross installed capacity of these plants at December 31, 2001. 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 2001. 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 4,000 MW is to be converted by 2003 and the remaining 7,000 MW is to be converted by 2008. Through the sale of Elettrogen and Eurogen, we disposed of approximately 7,180 MW of the 14,200 MW of gross installed capacity scheduled to be converted to combined cycle technology. Through the sale of Interpower, we plan to dispose of an additional 2,280 MW of such capacity, resulting in a total disposal of approximately 9,460 MW of such capacity through the sale of the Gencos. We currently estimate the average costs of conversion over the course of the project to be approximately Euro 320,000 per MW of gross installed capacity, or a total of approximately Euro 1,450 million through 2005, not including investments in the plants owned by the Gencos. At December 31, 2001, we had spent approximately Euro 500 million of this total, not including investments in the plants owned by the Gencos, and had completed the conversion of approximately 800 MW of our gross installed capacity to combined cycle technology.

In addition to our combined cycle conversion program, we are planning to upgrade an additional 5,600 MW of gross installed capacity by:

- Converting a fuel oil plant to orimulsion technology;
- Converting a fuel oil plant to clean coal 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 Euro 42 million 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 an average of approximately Euro 400 million in each of the last five years. These amounts have represented an increasing percentage of our total capital investments related to generation. We expect these expenditures to decrease to approximately Euro 80 million in 2002 as a result of the completion of our major environmental investment program. 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 Euro 4.1 million, 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 Euro 71.2 million.

### *Hydroelectric production*

At December 31, 2001, we had 599 hydroelectric plants with an aggregate gross installed capacity of 15.2 GW, or approximately 29% of our gross installed capacity at that date. In 2001, our hydroelectric net production was 36,516 GWh, or approximately 21.6% of our net production for the year, including 2,593 GWh generated by Elettrogen and Valgen before they were divested during 2001.

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 2001, pondage plants generated approximately 30% of our net hydroelectric production and represented approximately 20% of our gross installed hydroelectric generation capacity at year end, while run-of-river plants accounted for approximately 24% of our net production from hydroelectric plants and approximately 13% of our gross installed hydroelectric generating capacity. Pumped storage plants generated approximately 30% of our net hydroelectric production in 2001, and represented approximately 51% of our gross installed hydroelectric generating capacity, with reservoir plants accounting for the remaining approximate 16% of both our net hydroelectric production and our gross installed hydroelectric capacity in the same periods.

We invested an average of Euro 52 million per year during each of the last three years to refurbish our hydroelectric plants and we plan to invest similar amounts annually over 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 Valgen, a company operating all of our hydroelectric plants in the Valle d'Aosta, together with a 49% interest in electricity distributor Deval S.p.A., to the Regional Authority of Valle d'Aosta for total consideration of approximately Euro 800 million.

#### *Production from geothermal and other renewable resources*

Through our subsidiary Enel Green Power S.p.A. (previously called ERGA S.p.A.), we are one of the world's leading producers of energy from renewable resources, 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. Enel Green Power also operates substantially all of our smaller hydroelectric plants. At December 31, 2001, we had 30 geothermal power plants consisting of a total of 33 generating units with an aggregate installed capacity of 631 MW. In 2001, our geothermal net production was 4,239 GWh, or 2.5% 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, 2001, we operated seven wind farms with an aggregate gross installed capacity of 40 MW and three photovoltaic solar grid connected power plants with an aggregate gross installed capacity of 3.5 MW. Together, these plants accounted for 28.7 GWh of our net production in 2001.

At December 31, 2001, Enel Green Power had four projects under construction and 37 projects under development. In addition to its generating facilities, Enel Green Power operates geothermal drilling units, service shops and a fully equipped laboratory, all of which provide services to the renewable energy industry, including several of Enel Green Power's competitors.

Enel Green Power also operates in the United States, and in Central and South America through CHI Energy, a North-American independent power producer specializing in renewable sources, and in Central and South America through Energia Global International, Ltd. (EGI), a power producer specializing in renewable sources. At December 31, 2001, CHI Energy operated 82 power plants in the United States and three in Canada with an aggregate gross installed capacity of 332.8 MW and a net production in 2001 of approximately 604 GWh. In 2001, CHI Energy increased its gross installed capacity by 67 MW, primarily reflecting an increase in its generating capacity from wind. At the same date, EGI operated two hydroelectric plants and a wind plant in Costa Rica as well as two hydroelectric plants in Chile, with an aggregate gross installed capacity of 144 MW and net production in 2001 of approximately 459 GWh.

Most of Enel Green Power'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. Enel Green Power 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 Enel Green Power'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 Euro 462.7 million in receivables for Equalization Fund contributions, Euro 370.3 million in liquid assets and Euro 796.9 million of provisions for risks and charges, with the total of net assets transferred amounting to Euro 15.5 million. 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 2001, our fuel costs for thermal production, including fuel transport, were Euro 5,249 million and constituted 21% of our total operating expenses.

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. Data presented in the table include the electricity generated by Elettrogen and Valgen before they were divested in 2001, amounting to a total of 12.2 TWh.

Year ended December 31,								
	1998		1999		2000		2001	
	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.....	84,413	47.0%	66,995	37.5%	58,960	32.3%	49,261	29.1%
Natural gas .....	33,710	18.8	43,922	24.6	52,148	28.6	46,481	27.5
Coal and orimulsion.....	22,836	12.8	26,006	14.5	29,919	16.4	32,381	19.1
Other.....	<u>60</u>	<u>0.0</u>	<u>23</u>	<u>0.0</u>	<u>364</u>	<u>0.2</u>	<u>197</u>	<u>0.1</u>
Total thermal .....	141,019	78.6	136,946	76.6	141,391	77.5	128,320	75.9
Hydroelectric.....	34,486	19.2	37,714	21.6	36,692	20.1	36,516	21.6
Geothermal .....	3,958	2.2	4,128	2.3	4,415	2.4	4,239	2.5
Wind and photovoltaic.....	<u>21</u>	<u>0.0</u>	<u>25</u>	<u>0.0</u>	<u>29</u>	<u>0.0</u>	<u>31</u>	<u>0.02</u>
Total .....	<u>179,484</u>	<u>100.0%</u>	<u>178,813</u>	<u>100.0%</u>	<u>182,527</u>	<u>100.0%</u>	<u>169.1</u>	<u>100</u>

Source: Enel.

In 2001, Eurogen, the generating company we sold in May 2002, generated 20.9 TWh, or approximately 12.3 % of our net electricity production for that year. During the same year, Interpower, the third Genco that we expect to sell by the end of 2002, generated 6.4 TWh, or 3.8% of our net electricity production for that year.

In 2001, the approximate percentages of our gross electricity produced by the thermal generation represented by each of the following fuels was approximately:

- 36% natural gas;
- 38% fuel oil; and
- 26% coal, orimulsion and other fuels.

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

- 47% natural gas;
- 6% fuel oil; and
- 47% 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, 2001 and 2002 at the level for 1999. 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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 natural gas and fuel oil, require us to pay an average of approximately Euro 2,100 million per year over the next four years, based on current prices.

Since June 2000, our subsidiary 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 fuel trading, as well as the supply and development of related shipping, logistical and risk management services. In 2001, Enel F.T.L. traded an aggregate volume of 5.3 million of tons of fuel oil equivalents, including crude oil and petroleum products, coal, and petcoke gas, and approximately 3.6 million tons of coal in the international and Italian markets.

#### *Fuel oil*

We are among the world's largest purchasers of fuel oil. The following table shows the amount of fuel oil supplied to our generation companies that 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,			
	1998	1999	2000	2001
	(in millions of tons)			
Domestic suppliers .....	6.6	6.1	4.1	4.0
Foreign suppliers .....	<u>12.6</u>	<u>9.2</u>	<u>9.5</u>	<u>7.1</u>
Total fuel oil purchased.....	<u>19.2</u>	<u>15.3</u>	<u>13.6</u>	<u>11.1</u>

As of December 31, 2001, we purchased approximately 45% of our fuel oil on the spot market, approximately 34% under contracts ranging in term from one to twelve months and approximately 21% 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 mid and 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,			
	1998	1999	2000	2001
	(in millions of tons)			
Fuel oil purchased				
Low sulfur.....	5.4	3.9	3.7	2.7
Mid sulfur.....	11.5	8.3	9.1	8.1
High sulfur.....	<u>2.3</u>	<u>3.1</u>	<u>0.8</u>	<u>0.3</u>
Total.....	<u>19.2</u>	<u>15.3</u>	<u>13.6</u>	<u>11.1</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 2001, we purchased 12.9 billion cubic meters of natural gas. Eni S.p.A., the main Italian gas supplier and transporter, supplied approximately 50% of this natural gas.

In accordance with our strategy of producing more electricity from natural gas, the net electricity produced by using natural gas increased from 18.8% in 1998 to 27.5% in 2001.

To meet our need for gas, in 2001 we continued to purchase large volumes under our supply contract with Sonatrach, the Algerian gas producer. We obtained approximately 29% of the natural gas we purchased in 2001 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 Eni 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. We obtained approximately 21% of the natural gas we purchased in 2001 pursuant to our Nigerian gas contract. You should read “—Regulatory Matters—Electricity Regulation—The new tariff structure—Stranded costs” for a discussion of current regulations, which provide us with a reimbursement of part of the cost of the NLNG contract.

In 2001, approximately 36% of the electricity we produced by thermal generation was generated using natural gas. We plan to increase this percentage to approximately 47% 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 2001, our net production of electricity from coal and orimulsion was approximately 32.4 TWh, compared to a total of 29.9 TWh in 2000.

In 2001, we purchased 14.8 million tons of coal, virtually all of which was imported, principally from South Africa, South America, the Far East and Eastern Europe. Approximately 11.2 million tons of coal purchased in 2001 were used by our generating companies. The remaining 3.6 million tons were traded by Enel.FTL on the market.

In 2001, we purchased 2.3 million tons of orimulsion. Approximately 88% of the orimulsion purchased in 2001 was supplied to Enel Produzione, while the remaining 12% was supplied to Elettrogen.

#### *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 Industry Ministry 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 we imported in Italy under long-term and annual contracts and by spot purchases during each of the years in the period indicated.

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(TWh)			
Long-term contracts.....	30.9	29.5	20.8	20.9
Annual contracts.....	6.6	9.5	3.6	3.4
Spot purchases .....	3.1	2.7	0.7	0.8
Net imports (exports) from electricity exchanges.....	0.1	0.3	n.a.	n.a.
Total imports .....	40.7	42.0	25.1	25.1

Source: Enel.

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 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 to Terna in the second half of 2002. 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>
• Is responsible for safety, reliability and efficiency of transmission network	• Owns and operates the transmission network under the terms of the service contract
• Manages power flows	• Operates through a remotely controlled system
• Approves network maintenance	• Executes maintenance instructions
• Determines network upgrades	• Executes network upgrades
• Evaluates third-party connection requirements	

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, 2001.

<u>Type of facility</u>	<u>Number</u>	<u>Length (km)</u>
Primary transformer stations.....	268	—
Transformers .....	550	—
Busbar connections.....	3,649	—
380kV lines .....	207	9,761
220kV lines .....	350	10,153
150kV and 132kV lines .....	1,229	17,304
Total lines .....	1,786	37,218

In 2001, we put 7 new transformer stations into service and repowered 6 other stations. As a result, our aggregate transformer capacity increased by 1,235 MVA.

Our transmission network is connected to the distribution network through 268 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.

On April 15, 2002, we completed construction of a 400 kV direct current transmission line to Greece with 500 MW capacity. This line is 207 km long, with 163 km of submarine cable. The aggregate capital expenditure for the project was approximately Euro 340 million, of which our share was Euro 263 million; Athens Public Power Corporation, the Greek state-owned electricity utility, provided the balance. 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,			
	1998	1999	2000	2001
Network availability.....	98.1%	98.0%	97.8%	98.0%

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.

Capital expenditures in our transmission segment decreased to Euro 191 million in 2001 from Euro 219.3 million in 2000. As of June 2001, Terna assumed responsibility for the operation and maintenance of approximately 21,000 km of high voltage lines that are part of Enel Distribuzione’s network. Under this agreement, 455 employees were transferred to Terna from Enel Distribuzione. As a result, in 2001 as compared to 2000, operating revenues increased by Euro 22 million and operating expenses increased by Euro 20 million. The headcount of our transmission segment decreased from 4,003 at December 31, 1997, to 3,214 at December 31, 2001.

We intend to continue to implement the program aimed at reducing the operating costs we launched in 1998, through 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.

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, 2001, we reduced the total headcount in our distribution segment by approximately 29%. The following table shows the number of personnel in our distribution segment at the dates indicated:

	<b>At December 31,</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Distribution employees.....	54,298	51,928	47,841	44,072	38,296

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.

We recently entered Spain’s electricity distribution market through the acquisition of Electra de Viesgo S.L. (Viesgo), a Spanish electricity generation and distribution company, from Endesa S.A. Viesgo’s distribution network is 24,500 km long, serves approximately 510,000 clients, and had an annual sales volume in 2001 of approximately 4.7 TWh. Please refer to “—Generation” for further information.

#### *Distribution network*

The table below sets forth certain information about our primary and secondary distribution networks at December 31, 2001.

Type	Underground Lines (km)	Insulated Aerial Lines (km)	Bare Aerial Lines (km)	Total Lines (km)	Number of Substations	Transformer Capacity (MVA)
Primary:						
High voltage lines (40-150 kV).....	356	—	19,798	20,154	—	—
Primary substations.....	—	—	—	—	1,919	87,069
Secondary:						
Medium voltage lines (1- 30 kV) .....	115,380	5,098	210,703	331,181	—	—
Low voltage lines .....	210,327	365,059	133,519	708,905	—	—
Secondary substations .....	—	—	—	—	405,372	64,153

Losses on our distribution network in 2001 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 build new transmission and distribution lines and substations in the future and may require removing 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 the following networks:

- In March 2000, we sold our distribution network in Trieste to A.C.E.G.A.S. S.p.A., the municipal utility of Trieste, for Euro 11.4 million, and, in December 2000, we sold our distribution network in Parma to A.M.P.S. S.p.A., the municipal utility of Parma, for Euro 56.8 million. The network sold to A.C.E.G.A.S. S.p.A. supplied electricity to 819 customers in the city’s port and industrial district and had an annual sales volume of 77 GWh. The network sold to A.M.P.S. S.p.A. served approximately 40,000 clients and had an annual sales volume of 465 GWh.

- In July 2001, we sold our network in Rome and Formello to ACEA S.p.A., the municipal utility of Rome, for Euro 568 million, and, in December 2001, we sold our network in Turin to AEM Torino S.p.A., the municipal utility of Turin, for Euro 248 million. The network sold to ACEA S.p.A. served approximately 710,000 clients and had an annual sales volume of 4,300 GWh. The network sold to AEM Torino S.p.A. served approximately 293,000 clients and had an annual sales volume of 1,700 GWh.
- In April 2002, we sold our network in Cremona to Azienda Energetica Municipale di Cremona, the municipal utility of Cremona, for Euro 9.4 million. The network serves approximately 2,200 clients and had an annual sale volume of 236 GWh.

We have also sold other minor distribution networks for an aggregate price of approximately Euro 9.3 million. These networks served an aggregate of 8,000 clients and had an aggregate annual sales volume of 49 GWh.

We are in the process of selling certain other of our distribution networks to a total of 46 distribution companies that have requested us to do so. These companies include those active in Milan, where our network serves approximately 385,000 clients and has an annual sale volume of 3,100 GWh, in Verona, where our network serves approximately 90,000 clients and has an annual sale volume of 550 GWh, and in several small municipalities where our networks serve an aggregate of approximately 77,000 clients and have an aggregate annual sale volume of approximately 720 GWh.

Based on our results for 2001, if we will sell all of these networks to qualifying municipal distributors, we estimate that we would lose approximately:

- 552,000 customers, or 1.8% of our customer base;
- 4.37 TWh, or 1.8% of our total annual distribution of electricity to final customers;
- 2.4% of our annual revenues relating to our distribution business; and
- approximately 3% of our annual earnings before interest, taxes, depreciation and amortization, or EBITDA.

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. To date, 14 qualifying companies have issued a formal demand for price arbitration, including those active in Milan and Verona. In the case of Milan, the arbitration panel set the sale price of our network at Euro 423 million. We have appealed this decision before the Tribunal of Milan, where the matter is pending. We recently reached an agreement in principle to sell our Milan distribution network at the price determined by the arbitration panel, with the understanding that the purchase price is subject to adjustment to reflect any decision of the Tribunal of Milan on the value of the network. In the case of Verona, on June 26, 2002, the arbitration panel set the sale price of our network at Euro 107.7 million. We expect to sell our network in Verona within the next few months.

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.

In 2001 and in the first part of 2002, we acquired the distribution networks of 24 small municipalities, serving an aggregate of approximately 12,000 clients. We are also currently negotiating the acquisition of the distribution networks in approximately 100 other small municipalities, with an aggregate of approximately 29,000 clients.

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, 2001, we serviced approximately 23 million households, approximately 90% 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 other system charges that we are required to remit to third parties. See “—Regulatory Matters—Electricity Regulation—The new regulatory framework—Charges payable to the Equalization fund”.

	1998		1999(1)		2000		2001	
	(TWh)	(Euro in millions)	(TWh)	(Euro in millions)	(TWh)	(Euro in millions)	(TWh)	(Euro in millions)
Industrial .....	107.1	8,213	107.5	7,738	77.0	6,995	52.2	5,061
Up to 30 kW ..	5.1	881	5.2	926	5.2	1,115	5.0	748
From 30 to 500 kW.....	25.8	2,646	26.5	2,600	27.1	2,817	16.2	1,652
Over 500 kW..	76.2	4,686	75.8	4,212	44.7	3,063	31.0	2,661
Commercial and other services.....	51.8	5,660	54.1	5,753	55.5	5,937	56.6	7,711
Household.....	53.7	6,513	55.0	6,495	55.2	6,744	54.8	6,475
Agricultural.....	4.3	492	4.5	513	4.7	550	4.6	597
Total.....	216.9	20,878	221.1	20,499	192.4	20,225	168.2	19,844
Other distributors and exports .....	9.3	263	8.4	237	8.7	219	10.8	729
Total.....	<u>226.2</u>	<u>21,141</u>	<u>229.5</u>	<u>20,736</u>	<u>201.1</u>	<u>20,444</u>	<u>179.0</u>	<u>20,573</u>
Distribution to Eligible Customers.....	n.a.	n.a.	n.a.	n.a.	43.5	263	77.2	501.8

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

We estimate that Enel sold approximately 72% of the electricity consumed in Italy in 2001, including electricity sold by Enel Trade on the free market.

Growth in sales of electricity to industrial users is closely related to economic growth in Italy. 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. In 2001, the growth of Italian economy was limited due to a general slowing of the world economy especially in the last quarter of the year. 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. In 2000 and 2001, our sales to industrial users and to households decreased mainly due to the liberalization of the electricity market and our sale of certain distribution networks as required by the Bersani Decree. 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, the average tariffs for sales of electricity to Non-Eligible Customers declined by 10.4% in 2001, primarily due to the reduction in the component included in the tariff aimed to compensate for generation, transmission and distribution fixed costs. You should read “Regulatory Matters—Electricity Regulation—The new tariff structure” for a more detailed discussion of the new tariffs.

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”. Enel Distribuzione exceeded these targets for 2000 and earned a bonus of Euro 4 million. We believe our investments in customer service related initiatives are sufficient to allow us to comply with these guidelines.

The average waiting time for connections not requiring work on our electricity distribution network in 2001 was 1.4 days, basically unchanged from 2000. In 1988, these connections took over 13 days on average. In 2001, the average duration of service interruptions at the national level decreased by 27% from 165 minutes in 2000 to 121 minutes in 2001. The 2001 results do not include interruptions that occurred in certain Italian regions in December 2001 due to exceptionally severe weather conditions, which we believe will not be taken into account by the Energy Authority when evaluating quality targets for 2001.

In 2000, we discovered that the information we had previously provided to the Energy Authority with regard to the interruptions that had occurred in the regions of Campania, Calabria and Sicily in 1998 and 1999 contained a number of inaccuracies, and we promptly notified the Energy Authority of such findings. Following such notification, in May 2001, the Energy Authority fined us Euro 46.5 million for providing inaccurate information on the amount and duration of service interruptions in these regions. 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

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 Euro 52,000 (equal to twice the statutory minimum amount for the fine) within 60 days following our receipt of notice of the alleged violation. In April 2002, the Administrative Court of Lombardy confirmed our position and declared that we had fully satisfied our obligation. The Energy Authority has appealed the decision to the Italian Council of State and the relevant proceeding is still pending.

Currently, we conduct most of our primary customer service activities by telephone. In February 2002, we consolidated our telephone customer service system into 25 integrated nationwide call centers that are reachable from a single call-in number.

The call center is supported by both a national documentation center located in Southern Italy, which receives, processes and electronically files all contractual documentation, and by a national printing center, which prints and distributes all correspondence with customers. We have rounded out our customer service with a Self Service area available on our Internet portal, approximately 1000 "QuiEnel" retail locations as of May 31, 2001, WIND's and Enel.si's distribution and sales network, 150 retail locations managed directly by Enel Distribuzione, and 240 key account managers dedicated to mid-size business customers.

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. As of May 31, 2002, approximately 1.4 million meters of the total of 30 million meters have been installed. In 2001, our investments in this project amounted to Euro 22 million. The new meters, which are of a type that no other major utility in the world currently uses, are 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 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 purchased 3,000,000 newly issued shares of Echelon's common stock (representing approximately 8% of Echelon's outstanding shares, at the time) for a total of \$130.9 million. We also have the right to nominate one member of Echelon's board of directors, and have agreed to hold the shares through at least September 2003, 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. We launched *Contowatt*, in 1997, and *CartaWatt*, in 2001, two services which allow customers the

use of direct debits from bank accounts and credit cards, respectively, to pay their bills. In addition, in 2001 we introduced (in partnership with American Express) a co-branded credit card, which provides a special membership reward program.

### *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 requires 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 implemented a series of customer initiatives including:

- specially tailored contract terms for different types of customers;
- special conditions for customers depending on consumer profile and 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 currently expect to occur in the second half of 2002, we intend to offer price risk management services to Eligible Customers. In 2001, as part of our multi-service strategy, Enel Trade began offering natural gas to approximately 150 industrial and business customers. In 2001, we had sold approximately 336 million cubic meters of gas. In the first three months of 2002, we sold approximately 324 million cubic meters of gas. In March 2001, Enel Trade began to sell electricity and gas over the Internet.

In 2001, Enel Trade began expanding its operations outside of Italy. In the second half of 2001, we started trading activities with French operators. Enel Trade was awarded interconnection capacity to import 200 MW of electricity over a one-year term from France to Italy. See “—Regulatory Matters—Electricity Regulation—Imports”. We also expect to start operations in the Frankfurt and Paris pool markets in 2002.

The Bersani Decree envisioned that electricity consumed by Eligible Customers, including electricity produced by them, would account for at least 37% of total Italian electricity consumption in 2001 and 40% of total Italian electricity consumption in 2002. However, in 2001, 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. According to *Gestore della Rete*, the actual percentage of total Italian electricity consumption in 2001 represented by the free market, including electricity produced by customers for their own consumption, was approximately 34% (excluding self-produced electricity reduces the estimated percentage to 25%).

Enel Trade served about 3,329 individual sites, of which 2,364 belong to qualifying consortia throughout Italy in 2001. The government-mandated transfer of CIP 6 electricity produced from renewable sources to the free market in 2001 has increased competition in that market and reduced 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 during the years 1999 to 2001.

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<b>(Euro in millions)</b>		
Thermal.....	609	379	549
Hydroelectric .....	131	127	136
Geothermal.....	71	58	80
Wind and photovoltaic .....	<u>4</u>	<u>7</u>	<u>63</u>
Total Generation .....	815	571	828
Transmission .....	225	190	258
Distribution (1).....	1,676	1,358	1,339
Total Electricity Sector.....	2,716	<u>2,119</u>	<u>2,425</u>
Telecommunications	-	<u>936</u>	<u>1,185</u>
Gas Distribution	-	<u>-</u>	<u>27</u>
Other .....	<u>203</u>	<u>299</u>	<u>446</u>
Total.....	<u>2,919</u>	<u>3,354</u>	<u>4,083</u>

(1) Includes public lighting.

In 2001, our capital expenditures were Euro 4,083 million, having increased by 21.8% as compared to 2000, primarily reflecting the implementation of the conversion program of certain thermal generation plants to combined cycle technology, and investments in our telecommunications sector in connection with the development of our fixed and mobile access network following the acquisition of Infostrada. Investment levels also increased as a result of significant investments in wind and biomass generation plants as well as in the information technology and real estate sectors.

We incurred total capital expenditures in our core electricity businesses, including expenditures related to the Gencos, of approximately Euro 2,425 million in 2001 and we expect to incur expenditures of approximately Euro 4,100 million in 2002 and Euro 3,700 million in 2003.

We have made significant investments in developing our telecommunications business. 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 alternative 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 Euro 7,250 million, was paid in full on the same date. As provided for in the acquisition agreement, Mannesman Investment BV was also repaid by us Euro 132 million, representing a receivable it had previously renounced in favor of Infostrada. In addition, on the same date, Enel Investment Holding BV paid Vodafone Euro 821.2 million due to Vodafone from Infostrada and became a creditor of Infostrada for the same amount. You should read "—Telecommunications—The Acquisition of Infostrada" for further details on the transaction. In addition to the acquisition of Infostrada, we incurred total capital expenditures in our telecommunications business of Euro 1,185 million in 2001 and expect to incur expenditures of Euro 1,253 million in 2002 and Euro 1,440 million in 2003.

With respect to our other non-telecommunications businesses, we incurred total capital expenditures of approximately Euro 473 million in 2001 (including investments in our gas distribution business) and expect to incur total capital expenditures in all those businesses of approximately Euro 478 million in 2002 and Euro 1,289 million in 2003.

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 2001, we accounted for approximately 63.5% of domestic electricity production. We also purchased approximately 51% of the electricity imported into Italy, and also purchased electricity produced by independent power producers, electricity generated by industrial producers in excess of their own consumption and electricity produced from renewable sources under CIP 6 regime. 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 our estimates on gross installed capacity in Italy by category of producer at the dates indicated.

	At December 31,				
	1997	1998	1999	2000	2001
			(GW)		
Enel.....	58.2	58.9	59.4	58.9	52.0
Independent and other power producers .....	11.8	13.1	13.9	16.5	24.0
Municipal utilities.....	<u>2.8</u>	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>
Total.....	<u>72.8</u>	<u>74.9</u>	<u>76.2</u>	<u>78.3</u>	<u>78.9</u>

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.

We have already divested Elettrogen and Eurogen through auction processes. On September 20, 2001, we sold 100% of the share capital of Elettrogen to a consortium formed by Endesa S.A., ASM Brescia S.p.A. and Banco Santander Central Hispano S.A. On May 31, 2002, we sold 100% of the share capital of Eurogen to Edipower S.p.A., a consortium formed by Edison S.p.A., AEM S.p.A., AEM Torino S.p.A., Aar e Ticino SA di Elettricità (Atel), Unicredito Italiano S.p.A., Interbanca S.p.A. and Albojo Limited. In April 2002, we started the auction process for the sale of the third Genco, Interpower, which we expect to complete in the second half of 2002.

Following the completion of our disposal of the Gencos, we expect that our gross installed capacity will decrease to approximately 52% of total Italian gross installed capacity from approximately 65.9% in 2001 and that we will generate approximately 39% of the total amount of electricity generated and imported in Italy in 2003.

The disposal of the Gencos exposes us to increasing competition from other generating capacity operators 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 114 GW of new generating capacity in Italy. However, we expect that only a small portion of these requested authorizations will be granted.

The three current leading independent electricity generators in Italy are Edison, which recently incorporated Sondel and Italennergia, Endesa Italia and Eni. Edison has a reported 6.2 GW of generation capacity, Endesa Italia has a reported net generation capacity of 5.4 GW and Eni has a reported 2.4 GW of generation capacity.

The main municipal electricity companies are AEM S.p.A., ACEA S.p.A. and AEM Torino S.p.A. They are each publicly traded, but remain majority-owned by the relevant municipality. AEM S.p.A. has approximately 1.1 GW of generation capacity, ACEA S.p.A. has approximately 0.4 GW and AEM Torino S.p.A. has approximately 0.5 GW of capacity. In addition to their core electricity business, these companies offer gas and/or water services, and are moving into telecommunications.

After the completion of the acquisition of Eurogen by the consortium Edipower in May 2002, Edison, AEM S.p.A., AEM Torino, and Atel, the industrial members of the consortium, announced that they had entered into a tolling agreement pursuant to which Eurogen's generation capacity will be allocated among them proportionally to their respective stake in the company, whereby Edison is allocated approximately 3.5 GW and AEM S.p.A., AEM Torino, and Atel are allocated approximately 1.2 GW each.

We believe that in 2001 we imported pursuant to long-term contracts approximately 43% of the electricity imported into Italy. Pursuant to the Bersani Decree, we may be required to transfer all or part of these contracts, which represent a total of approximately 20.9 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. Since 2001, competition in the free market has increased as a result of the disposal of Elettrogen and Eurogen, and the government-mandated addition to the free market of approximately 39 TWh of CIP 6 electricity produced from renewable resources, which the *Gestore della Rete* is selling to operators or directly to Eligible Customers. We expect competition in the free market to increase further in 2002 due to the expected disposal of Interpower and to restrictions on individual operators’ access to international electricity sources established by the Energy Authority.

### *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 the winter months. Nevertheless, increased use of air conditioning has rendered less significant the difference in 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**

### *Overview*

We conduct our telecommunications and Internet service activities through WIND S.p.A. WIND is our most significant business outside of our electricity operations, having grown rapidly since launching its operations in early 1999, to become, we believe, the leading provider of fully integrated mobile and fixed-line telephony, Internet and data transmission services in Italy. WIND operates throughout Italy with its own network infrastructure and has rapidly developed its transmission backbone by leasing fiber optic cables from us.

We formed WIND as a joint venture in 1997 along with our initial partners, France Télécom and Deutsche Telekom. Our stake in WIND initially was 51%, with France Télécom and Deutsche Telekom holding a 24.5% stake each. Following Deutsche Telekom’s exit at the end of July 2000, our stake rose to 56.63% and France Télécom’s share grew to 43.37%. As a result of our contribution of Infostrada (the fixed line telecommunications and Internet company we acquired in 2001) to WIND, effective July 30, 2001, our stake in WIND is now 73.425%, with France Télécom holding the remaining 26.575%. Infostrada was merged into WIND on January 1, 2002. As explained more fully below under “—Agreements with France Télécom,” although we own a majority interest in WIND, our agreements with France Télécom give France Télécom certain rights with regard to strategic business decisions.

### *The Acquisition of Infostrada*

To expand our presence in the telecommunications sector and complement WIND, 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 alternative providers of fixed-line telecommunications services and the operator of one of Italy's leading Internet portals at the time. The purchase price of the shares, amounting to Euro 7,250 million, was paid in full on the same date. As provided for in the share acquisition agreement, we also paid Mannesman Investment Euro 132 million in respect of a receivable it has previously renounced in favor of Infostrada. Moreover, on the same date, Enel Investment Holding BV paid Vodafone Euro 821.2 million that Infostrada owed Vodafone, and became a creditor of Infostrada for this amount. In addition, in connection with the acquisition, we incurred certain ancillary costs amounting to approximately Euro 375 million.

Authorization for the purchase from the European Commission was obtained on January 19, 2001, while the authorization of the Italian Antitrust Authority was issued on February 28, 2001. The authorization of the Italian 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 required 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. This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada. As agreed with Vodafone, the outcome of this action will have no effect on the sale, which was final and unconditional.

Effective July 30, 2001, we contributed all the shares of Infostrada to WIND in exchange for new shares issued in connection with a reserved capital increase. Effective January 1, 2002, Infostrada was merged into WIND.

We are currently integrating the operations, infrastructure, personnel and services of Infostrada with those of WIND. We believe that the completion of this integration, which we expect to occur by the end of 2002 and to involve total expenditures of Euro 75 million, will enable WIND to realize 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. By significantly expanding our telecommunications operations, we also expect to diversify our revenue base further while expanding our range of value-added services.

We have already integrated the corporate organization of WIND and Infostrada into a single corporate structure. WIND's new corporate organization has two main divisions, the telecommunication division and the Internet and multimedia division.

### *The Italian Communications Market<sup>1</sup>*

Italy is one of the largest and, according to IDC, fastest-growing telecommunications markets in Europe, with a population of approximately 58 million people, utilizing an aggregate of approximately 51.1 million mobile telephone lines and approximately 27 million fixed lines, as of December 31, 2001. WIND uses the number of lines as the primary measure of its customer base and growth, as many of its customers have more than one line for mobile, fixed or Internet services. For mobile services, the number of lines represents the number of Subscriber Identity Module, or SIM, cards sold. For Internet services, the number of lines is equal to the number of registered users. Largely as a result of the acquisition of Infostrada in 2001, WIND increased the combined number of fixed and mobile telephone lines it operated from approximately 7.2 million to approximately 14.9 million and the number of its registered Internet users from approximately 670,000 to approximately 9 million. As of March 31, 2002, WIND further increased its customer base to an aggregate of 15.2 million fixed and mobile telephone lines and approximately 10 million Internet registered users.

*Mobile Services.* The Italian mobile telephone market, one of the largest in Europe, continued to expand in 2001, adding over 9 million lines at the end of December 2001 to an existing base of approximately 42 million lines at the end of 2000. Independent market research has estimated that the number of mobile lines in Italy could reach a total equal to approximately 100% of the population by 2004.

As of December 31, 2001, Telecom Italia Mobile S.p.A. had approximately 23.9 million lines, accounting for approximately 47% of the Italian total, while Vodafone Omnitel S.p.A. had more than 17.4 million lines, or approximately 34% of the total. As of the same date, WIND had approximately 7.9 million lines, or approximately 15.5% of the total market for Italian mobile telephony, a significant increase from its 12% market share at the end of 2000.

*Fixed telephony services.* As of December 31, 2001, the total number of lines operated by alternative fixed-line carriers in Italy (*i.e.*, carriers other than Telecom Italia S.p.A.) exceeded 10 million, with a net increase of approximately 2 million since the beginning of the year. At the same date, WIND had approximately 7 million fixed lines. Other major alternative carriers include Tele2, Tiscali and Albacom, which focuses on the corporate market. Competition in the fixed-line telephony market is expected to evolve with the expanded availability of carrier pre-selection and the unbundling of the local loop. Please refer to “—Regulatory Matters—Telecommunications” for a detailed discussion of the unbundling of the local loop.

*Internet Services.* In 2001, the number of registered Internet users in Italy increased by approximately 70%, reaching a total of approximately 26 million as of December 31, 2001.

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<sup>1</sup> Data related to the Italian communications market presented in this section are based on WIND's estimates, except where otherwise indicated.

WIND had approximately 9 million registered users as of December 31, 2001, or approximately 35% of the market.

### *Strategy and Competitive Strengths*

WIND's primary objective is to build on its customer base and its expertise as an integrated 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 integration, 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 Integrated Services.*** WIND is Italy's first fully integrated telecommunications operator. Management believes that WIND's position as a single provider of mobile, fixed-line and Internet services affords it a number of competitive advantages over traditional telecommunications carriers that specialize in either fixed-line or mobile telephony, including:
  - 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;
  - the ability to cross-sell voice, Internet and data services through mobile and fixed-line access to existing customers; and
  - the ability to capitalize on the greater efficiencies inherent in operating integrated infrastructure.
- ***Extensive and Innovative Product Portfolio.*** We believe 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 a mobile portal and mobile number portability, which allows customers to migrate to WIND from other Italian mobile carriers without changing their phone number. In 2001, WIND also launched direct access services to its fixed-line customers in a very limited number of areas, following the initial stages of the unbundling of the local loop.

- **Brand Recognition.** Management believes that the “WIND” brand is one of the most recognized in the Italian telecommunications sector. Through the acquisition of Infostrada, we also acquired the “Infostrada” and “Libero” brands, which we believe to be two of the most recognized brands in the fixed telephony and Internet sectors, respectively. In 2001, WIND restyled these two brands and launched a number of communications initiatives to strengthen the recognition of these two brands as part of the WIND network. 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 its brands 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 is also integrating its existing network with that of Infostrada. 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, which grew further following the merger of Infostrada. As of March 31, 2002, WIND’s customer base comprised an aggregate of approximately 25 million mobile, fixed and internet lines.

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 Euro 2,427.3 million, of which Euro 2,102 million has already been paid and the remainder is to be paid over the next nine years. The UMTS license is effective for a term of 15 years from January 1, 2002. 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, 2002, WIND operated approximately 25 million lines.

WIND uses the number of lines as the primary measure of its customer base and growth, as many of its customers have more than one line for mobile, fixed or Internet services. As of March 31, 2002, WIND had approximately:

- 8 million mobile lines, represented by the number of Subscriber Identity Module, or SIM, cards sold, an increase of approximately 3.1 million new lines since December 31, 2000;
- 7.2 million fixed lines, an increase of approximately 4.9 million new lines since December 31, 2000; and
- 10 million registered Internet users, an increase of approximately 9.3 million new users, since December 31, 2000. WIND's Internet portals recorded approximately 630 million page views in March 2002, a significant increase from the 75 million page views recorded in March 2001. Each of these increases were largely due to our acquisition of Infostrada's leading Internet activities.

WIND is launching several initiatives to sell mobile and integrated telephony services to Infostrada's fixed-line customer base. In 2001, WIND also launched mobile number portability, which allows customers to migrate to WIND from other Italian mobile carriers without changing their phone number.

### *Products and Services*

WIND offers a number of integrated mobile and fixed-line telephony products, Internet and other value-added services to corporate and residential customers. WIND also currently provides the Enel Group with most of its key telephony and other telecommunications services under an outsourcing contract entered into following the Enel Group's contribution of its telecommunications division to WIND in 1999.

*Mobile Telephony.* WIND offers a wide range of mobile telephony products and services including several tariff plans for mobile telephone users and products that integrate mobile with fixed-line and Internet services. In 2001, WIND launched several new products for mobile telephony, including:

- "Pieno Wind", which allows the customer to recharge a prepaid card for each second of incoming mobile or fixed-line calls;

- “Wind Eureka!”, a package of services which allows mobile telephone users to access news content, chat lines, and exchange images through Short Message Services, or SMS; and
- “Portale Mobile Wind Eureka”, the first Wireless Application Protocol, or WAP, portal that uses the General Packet Radio Services, or GPRS, technology. The portal may be accessed through enabled mobile phones or palm PCs and offers a wide range of media and entertainment content both in a text and video format, as well as e-mail and Intranet services.

In 2001, WIND also entered into several non-exclusive agreements for the purchase of content offered with its mobile telephony services with certain major operators in the media and entertainment industry such as RAI, CNN, MTV, Il Sole 24 Ore, EMI, Virgin, Sony, and Universal.

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 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.

*Fixed-line Telephony.* WIND offers fixed-line telephony services to business and residential customers using either carrier selection, where customers dial 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.

Costs of fixed-line telephony services are generally calculated on the basis of the type and length of calls made, however, WIND also offers:

- calling plans that allow for personalization of service and grant discounts on the most frequently called numbers;
- calling plans for residential customers using alternative pricing methods;
- a service called “WindTandem”, which offers customers reduced prices for calls to selected numbers on WIND’s fixed or mobile network; and
- a prepaid service that allows corporate customers to share cost between personal and business calls.

WIND also 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 also sells prepaid and magnetic strip telephone cards and offers carrier and termination services in Italy to other national and international carriers.

*Internet.* WIND offers a full array of Internet and data transmission services to both business and residential customers.

WIND manages Libero, an Internet portal into which it merged Italia Online, a leading Italian portal previously managed by Infostrada, and WIND's former portal In-Wind. Libero is among the leading Italian portals in terms of page views per month. Libero also sells online advertising to businesses. Through the portal, WIND offers a wide array of high-quality Internet services and content, including Arianna, one of the most widely used Italian search engines, e-mail services, chat line and newsgroup services, an online shopping service, and a wide range of content.

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

- “Libero”, which offers subscription-free unlimited access, for which the customer only pays for the connecting call;
- fee-based Internet access service packages that are tailored to the specific needs of individual business customers;
- “Libero ADSL”, which offers high speed Internet access using ADSL, or Asymmetric Digital Subscriber Line technology, which allows high speed transmission of data using the user's existing connections through a dedicated modem at the customer's location through equipment at the telephone exchange office. Currently, WIND offers ADSL access by purchasing it on a wholesale basis from Telecom Italia; and
- HDSL, or High Bit-rate Digital Subscriber Line advanced services, which allow high speed data transmission and Internet navigation, as well as a thorough integration of telephony and Internet services through the VoIP, Voice over Internet Protocol.

WIND also offers to its corporate clients value-added services such as video-streaming and web housing and hosting services.

*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 customers, WIND offers indirect access to its fixed voice and Internet services through either carrier selection or carrier pre-selection.
- 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. In 2001, following the initial steps in the unbundling of the local loop that allow alternative carriers to have access to Telecom Italia's local network, WIND has begun to expand the availability of direct access to other customers in very limited areas. When the unbundling of the local loop is fully operational, WIND's 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 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.

Since our acquisition of Infostrada, WIND has begun integrating its network with that of Infostrada. We believe that the completion of this integration process will provide WIND with a high-capacity transmission infrastructure covering most of the domestic territory and allowing the delivery of new and innovative services.

As of March 31, 2002, WIND's network infrastructure included:

- A 17,500 km fiber optic transmission backbone 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 2,000 km of underground cables;
- A national voice switched network comprising 57 fixed switches and 47 mobile switches;
- A packet switched data network comprising 72 points of presence for data transmission and 72 Internet Protocol points of presence; and
- A GSM/GPRS mobile network covering approximately 94% of the Italian population.

WIND leases inactive, or dark, fiber on its national backbone from us under a renewable 15-year contract that became effective in 1999. Under that contract, WIND paid us a total initial consideration of Euro 108.4 million, and has been paying an additional Euro 45.1 million per year in annual fees since 2000; the annual lease fee 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 S.p.A., Telecom Italia Mobile S.p.A., Vodafone Omnitel S.p.A. and Blu S.p.A., as well as other international carriers, including an agreement with France Télécom 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.

WIND is developing its broadband capabilities through pilot programs in selected areas of Italy. An important initiative in this regard was the establishment of Estel S.p.A. in July 2000. 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. Estel launched its initial services in December 2000. In June 2002, WIND, which originally held a 40% interest in Estel, acquired the remaining 60% interest held by the municipal authorities of Trieste, Udine and Gorizia for aggregate consideration of Euro 7.15 million.

WIND has also begun offering direct access to a very limited number of its fixed-line customers following the unbundling of the local loop, a process whereby Telecom Italia is required to give alternative carriers access to Telecom Italia's "last-mile" connections that include the wires leading to a customer's home or office. As of March 31, 2002, WIND had installed 82 local loop unbundling sites. You should read "—Regulatory Matters—Telecommunications" for a detailed discussion of the unbundling of the local loop.

#### *Customer Care and Marketing*

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 allows 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.

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 markets its services and products through a multi-channel commercial distribution network with over 4,300 points of contact, including dealers, independent agents, business partners and distributors. 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, which includes approximately 80 stores. In 2000, WIND acquired a 30% stake in a joint venture with Eldo, one of Italy's major consumer electronics retailers, to develop a chain of retail stores that sells WIND telecommunications equipment and services as well as those of other telecommunications operators. As of June 2002, 26 stores of this chain have opened. Following the contribution of Infostrada, WIND also relies on the strong network of agents, principally for fixed telephony services, then operated by Infostrada.

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.

#### *Environmental and other regulatory matters*

WIND takes an active role in health and environmental health protection. Because of its relatively recent start-up of operations, WIND has been able to take advantage of recently developed technologies in the 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.

#### *Agreements with France Télécom*

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

The WIND shareholders' agreement contains alternative dispute resolution mechanisms intended to settle disagreements between us and France Télécom that may arise as a result of these provisions. These arrangements include certain “put” options, under which we may be required to buy France Télécom's shares in WIND, and in some cases, to pay a premium to France Télécom 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 Télécom 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 Télécom 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 Télécom’s consent.

In connection with the acquisition of Infostrada, we amended our shareholders’ agreement with France Télécom relating to WIND. This agreement contains also certain mechanisms by which Enel and France Télécom may adjust their respective interest in WIND, following the contribution of Infostrada, including an option by which France Télécom may increase its share of WIND to reestablish the proportional shareholding it held in WIND relative to us prior to our acquisition of Infostrada by exercising a call option on a specified number of our shares at any time between the 24<sup>th</sup> and 30<sup>th</sup> month following the contribution of Infostrada to WIND at a price based on market value, but subject to certain specified caps and floors.

## **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 other 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-service strategy offers us opportunities for potential synergies, including, for example, the ability to schedule and perform gas and electric 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 over the past three years. These acquisitions include those of Colombo Gas Group in 2000, So.ge.gas S.p.A. and Agas S.p.A. in 2001, and Camuzzi Gazometri S.p.A. in 2002. Together, our acquisitions of gas companies have provided us with access to an aggregate of approximately 1.66 million natural gas customers as of June 2002.

In November 2001, we merged twenty previously acquired gas companies into Enel Distribuzione Gas S.p.A. In January 2002, the sales activities of Enel Distribuzione Gas S.p.A. were spun-off into Enel Vendita Gas S.p.A., a newly incorporated company. We are also in the process of consolidating the distribution and sales activities of our newly acquired gas companies into Enel Distribuzione Gas S.p.A. and Enel Vendita Gas S.p.A., respectively.

On March 4, 2002, we acquired 98.5% of the outstanding shares of Camuzzi Gazometri S.p.A. from Mill Hill Investments for an aggregate consideration of Euro 1,043 million. Prior to our acquisition, Camuzzi had spun off its Argentine activities, the Piacenza Football Club, all of its publishing activities and its telecommunications activities.

In 2001, Camuzzi distributed 1.8 billion cubic meters of gas to more than 986,000 customers (representing approximately 6% of the Italian market). Camuzzi operates through approximately 11,000 km of network, principally located in Northern Italy and the region of Puglia.

We will continue actively to consider the acquisition of other companies involved in gas distribution. Furthermore, we are 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 expand our 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 resources in our dams in many areas of Italy and our potential to achieve 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 into a single entity.

In 2001, we acquired CTIDA S.r.l., a small water and waste water process company, active both in the industrial and municipal markets.

In 2001, we also decided to abandon our proposed acquisition of Acquedotto Pugliese, a major provider of integrated water distribution services in Italy that is active in the regions of Puglia and Basilicata due to certain issues arising out of the fact that the price to be paid for Acquedotto Pugliese was not determined unanimously by the panel of independent auditors appointed for the purpose and from uncertainties in the regulatory framework, particularly with respect to regulation of the water sector in Puglia. Please refer to "Item 8. Financial Information—Other Financial Information—Legal Proceedings" for further information.

In 2001, Enel Hydro's principal achievements included:

- A joint venture created by Enel.Hydro with Acquedotto Pugliese, Vivendi Environment, Siba S.p.A., Italcogim S.p.A and Emas S.p.A was awarded a 30-year concession to provide water and sewage services to approximately 1.1 million people in the area of Latina. This project is expected to become operational by the end of 2002 and to involve total capital expenditures of Euro 361 million (of which approximately 11% is attributable to Enel.Hydro) over the next 30 years.

- A joint venture created by Enel.Hydro with Acquedotto Pugliese was awarded a 30-year concession to provide gross treated water to approximately 2 million people in the region of Calabria. This project is expected to become operational by the end of 2002 and to involve total capital expenditures of Euro 386 million (of which approximately 22% is attributable to Enel.Hydro) over the next 30 years.
- A joint venture created by Enel.Hydro with ACEA S.p.A. was awarded a 30-year concession to provide water and sewage services to approximately 1.5 million people in the area of Sarnese Vesuviano. This project is expected to become operational by the end of 2002 and to involve total expenditures of approximately Euro 570 million (of which approximately 9% is attributable to Enel.Hydro) 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 – directly or through its subsidiaries – 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 also acts 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.

In 2001 and in the first part of 2002, Enelpower's principal achievements included:

- In March 2001, Enelpower was awarded an EPC contract for the construction of a 370 MW power plant for AEM, the municipal utility of Milan.
- In April 2001, a joint venture created by Enelpower with two Greek energy companies was awarded licenses by the Greek government for the construction of two 440 MW combined cycle plants.
- 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, and a contract for the construction of a 740 MW power plant in Ras Laffan, Qatar.

- In October 2001, Enelpower entered into two EPC contracts for the construction of 400 km of 400 kv transmission lines in Algeria.
- In March 2002, Enelpower was assigned a build, operate and transfer contract for the construction and a 30-year concession for the management of a 1,278 km long, 500 kV transmission line to connect the northern and southern regions of Brazil.

In 2001, Enelpower earned approximately 46% of its revenues from work on plants outside the Enel Group, and expects this percentage to increase to approximately 66% in 2002.

### *Real estate and other services*

We conduct our commercial real estate management activities through Enel Real Estate S.p.A. (previously called SEI). Enel Real Estate 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. Enel Real Estate 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 Euro 367 million to Dalmazia-Trieste S.p.A., a company wholly owned by the Enel Group. We currently expect Dalmazia-Trieste to dispose of residential assets with a net book value of approximately Euro 304 million over the next several years. In January 2001, we launched [www.Quickcasa.it](http://www.Quickcasa.it), an Internet portal offering part of our residential real estate portfolio for sale. At December 31, 2001, we owned real estate (net of the assets transferred to Dalmazia-Trieste) with an approximate net book value of Euro 1,679 million, consisting of approximately Euro 1,624 million of office buildings and other commercial properties and approximately Euro 55 million of residential real estate, real estate formerly used for industrial purposes and unimproved land.

In addition, Enel Real Estate is developing partnerships to rent or sell vacant properties and otherwise develop its real estate assets. In March 2000, Enel Real Estate agreed with American Continental Properties Institutional Investors to form a joint venture, Immobiliare Foro Bonaparte, to which it contributed Euro 520 million of real estate assets and a mortgage loan secured by the assets equal to approximately 50% of their value, as well as related personnel. In December 2000, Enel Real Estate sold 51% of its interest in the new company to American Continental. Immobiliare Foro Bonaparte, which began operations in December 2000, is focusing on developing and renting properties in Italy.

In July 2000, Enel Real Estate and Deutsche Bank Real Estate had agreed to establish a similar venture, Immobiliare Rio Nuovo, to which Enel Real Estate had contributed approximately Euro 436 million of real estate assets, a mortgage loan secured by the assets equal to approximately two-thirds of their value, subordinated debt of approximately Euro 67 million and related personnel. Enel Real Estate sold 51% of its interest in Immobiliare Rio Nuovo to Deutsche Bank Real Estate in May 2001, and the remaining 49% in March 2002.

In 2001, Enel Real Estate entered into two new joint venture agreements:

- In April 2001, Enel Real Estate 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. Enel Real Estate currently owns 50% of the new company. Enel expects to acquire Mitsubishi Electric Europe's interest during the second half of 2002.
- In September 2001, Enel Real Estate established Leasys S.p.A., a joint venture with Fidis S.p.A. (a company of the Fiat Group), to which it transferred its car rental activities. Enel Real Estate owns 49% of the new company.

### *Public lighting*

So.l.e. S.p.A. operates our public lighting services in Italy and abroad. So.l.e. targets the general market for public lighting and 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. As of December 31, 2001, So.l.e. managed approximately 1,660,000 lighting points in approximately 5,700 Italian cities.

In 2001, So.l.e. was awarded new contracts for construction of new lighting points for a total value of approximately Euro 30 million and maintenance contracts for approximately 160,000 public lighting points throughout Italy with an aggregate value of approximately Euro 76 million. So.l.e. also develops and markets new value-added public lighting products.

### *Electricity systems-related services*

We formed Enel.si S.p.A. in March 1999 to offer 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.

Enel.si is developing a franchising network with the aim of establishing a broad presence throughout Italy. As of June 2002, Enel.si entered into agreements for the opening of 774 franchising points. We expect our franchising networks to be composed of approximately 2,500 franchisees by the end of 2004.

### *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. In September 2001, Elettroambiente acquired Powerco for total consideration of Euro 18 million. Powerco is an Italian producer of energy derived from waste, landfill gas and biomass and the

sole Italian user of Plasma Pyrolysis Vittrification (PPV) technology, which produces energy through the transformation of solid waste into gas at very high temperatures. In September 2001, we sold a 29.52% interest in Elettroambiente to Italgas Energia S.p.A., a company active in the waste-to-energy sector.

### *New Technologies and Venture Capital*

During 2001, we continued to redirect 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. As of June 2002, we had completed 16 venture capital investments for aggregate consideration of Euro 50 million, including

- In March 2001, along with ten other major European utility companies, we established 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%;
- In June 2001, we acquired a 10.2% stake in Digital Persona Inc., which develops authentication hardware and software solutions for mainstream computing that recognize users through biometric technology or fingerprint identification;
- In September 2001, we acquired a 20% stake (recently increased to 25.86%) in FSB S.p.A., an Italian provider of automated, remote-controlled systems based on the LonWorks Technology developed by Echelon Corporation;
- In January 2002, we acquired a 40.25% stake in MyCasaNetwork, a U.S. Internet service company that provides users with real time monitoring of household appliances;
- In April 2002, we acquired a 10.0% stake in Cam Tecnologie S.p.A., an Italian company which develops environmentally-friendly fuels such as water-diesel and water-oil emulsions.

### *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 innovate and expand the service offerings of our core electricity businesses, as well as to 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 so as to deliver new services through our network infrastructure. We conduct our research and development activities mainly through Enel Produzione, Enel.Hydro, Enel Green Power as well as through CESI S.p.A., which is dedicated mainly to the testing of

electrical and electronic equipment and to research on new electrical systems, plants, components and applications thereof.

Our research and development program involves approximately 1,000 employees. Our expenditures on research and development were approximately Euro 100 million for 2001, Euro 124 million for 2000 and Euro 145 million for 1999. As noted above, we have continued 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.

In 2001, Enel.it implemented an integrated SAP information management system in many of the Group's companies. In 2002, Enel.it completed the implementation of our new customer service system, which integrates our 25 nationwide call centers, making them reachable from a single call-in number.

Enel.it has three central data processing centers with five mainframes with a total data processing capacity of 5.0 billion instructions per second, as well as approximately 85,000 SAPS, 54,000 workstations, 1,100 local area networks, 5,100 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 2001, the Enel Group entered into agreements for the purchase of goods and services (excluding energy and fuel) with an aggregate value of approximately Euro 6,200 million with about 22,000 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 expiration of our main insurance policies in June 2000, we adopted a policy of self-insuring for third party liability (up to Euro 50,000 per claim), environmental liability (up to Euro 250,000 per claim) and property risk (up to Euro 50,000 per claim generally and up to Euro 125,000 for property risk of our generation companies).

Liabilities in excess of these amounts, up to per claim limits of Euro 800,000 for environmental liability, Euro 2.5 million for third-party liability and Euro 1 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 Euro 30 million for environmental liability, Euro 500 million for third-party liabilities arising from accidents concerning our dams, Euro 200 million for other third-party liabilities (Euro 10 million per occurrence and per year for pure financial losses) and Euro 1 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 Enel 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.

## *Personnel Administration*

In January 2001, we formed APE Gruppo Enel S.p.A., a wholly-owned company that manages personnel payrolls, pension funds and social security funds and provides related administration services for the Enel Group, as well as offering similar services to third parties. As of December 31, 2001, the company had 970 employees of its own, and provided services to a total of approximately 70,750 employees in total, of which 4,235 belonged to companies outside the Enel Group.

## *Professional Training Services*

Sfera S.p.A., which we formed in 1999, is responsible for providing professional training services to our employees. In 2001, Sfera developed a total of 104 training projects and launched an integrated remote training system for employees of our Group. In 2001, Sfera also began to offer its training services to parties outside the Group.

# **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 Union, or EU, 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 EU 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 EU Commission and Council recently proposed amendments to the Electricity Directive, aimed to further the liberalization of the electricity market at the EU level. The proposed rules, among other things, would enable all non-household consumers to freely choose their supplier by 2004, irrespectively of consumption levels, would introduce a new definition of public service obligations and security of supply, and would facilitate cross-border transactions in electricity.

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, the Gestore della Rete, 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 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. 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). On September 20, 2001, we sold 100% of the share capital of Elettrogen. On May 31, 2002, we sold 100% of the share capital of Eurogen. We are in the process of disposing of Interpower and expect to complete this sale by the end of 2002. Please refer to “—Business—The Enel Group—Disposal of the Gencos” for further information.

We may also be required to sell a further 5,500 MW to comply with a decision of the Antitrust Authority regarding our acquisition of Infostrada. This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada.

In 2002, the Italian Parliament approved a new law by which the authorization procedures relating to the construction of new power generation plants and the renovation and expansion of existing plants will be streamlined.

#### *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 tradable “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. Please refer to “—Business—The Enel Group—Production from geothermal and other renewable resources” for information on our production from renewable resources.

### *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 the Gencos 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 50 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 2001, 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. In December 2001, the Energy Authority established the criteria for the allocation of import quotas for the year 2002. This allocation mechanism considers the total interconnection capacity available at the borders with France and Switzerland (the north-west pool) and Austria and Slovenia (the north-east pool) separately. Interconnection capacity is allocated on a pro-rata basis; in no case can a single importer hold more than 10% of the interconnection capacity available in any given pool. The Energy Authority and the French energy authority have agreed that they will jointly decide how to allocate the interconnection capacity in the north-west pool.

### *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.

As of January 1, 2002, 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 9 GWh;
- 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 1 GWh, 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.

Customers whose annual consumption of electricity in the previous year was at least 1 GWh at each delivery point and 40 GWh in the aggregate 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, both Eligible and Non-Eligible Customers also

pay transmission fees and system charges as set by the Energy Authority. 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.

The list of Eligible Customers is publicly available and included 1,657 Eligible Customers (including qualifying consortia) as of January 2002.

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 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 was 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 the second half of 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, to be administered by an independent entity that will serve the 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. In January 2002, the Market Operator submitted a set of rules to the Industry Ministry, whose approval is still pending.

Under the regulations, transactions between producers and Eligible Customers will take place in different markets in order to ensure a 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 resulting 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 to increase or decrease 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 injection

and withdrawal schedules defined in the markets will be carried out through the “balancing market.”

The rules proposed by the Market Operator would establish a registry of the operators admitted to the pool market and the requirements for admission, as well as granting the Market Operator power to decide on new admissions. Such rules would also establish the procedures for submitting and clearing the bids and offers and settling transactions, including payment methods and guarantees.

### *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. Since January 1, 2002, Eligible Customers are able to obtain access to the network by contracting with distributors under tariff option schemes that make the cost of transport equal for all customers. For a discussion of these tariff options, you should read “—The New Tariff Structure”.

### *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 distribute 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 were considered to be approved unless the Industry Ministry objected 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, any local distribution companies owned or partly owned by a municipality that served 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.

To date, we have sold our local distribution networks in Rome and Formello, Turin, Trieste, Cremona and Parma.

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 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, 12 formal arbitrations are still pending.

On average, the distribution networks that we will be required to sell are more profitable than our other 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 requires 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.

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 that came into effect on January 1, 2000, regulates the price paid by Non-Eligible Customers for electricity, while Eligible Customers pay electricity at market price. Both Eligible and Non-Eligible Customers pay transmission, distribution and system charges as set by the Energy Authority. Prior to January 1, 2002, the Energy Authority set different prices to cover transmission and distribution costs for Eligible and Non-Eligible Customers. As a result of its decision of October 2001, and effective as of January 1, 2002, the Energy Authority established so-called transport charges which are equal for both Eligible and Non-Eligible Customers and are meant to cover transmission and distribution costs.

The Energy Authority has also established a mechanism that will allow us to recover a significant portion of our stranded costs through the transport charges paid by all customers.

The new tariff structure resulted in significant reductions in our tariff revenues for the year 2000, that were primarily attributable to lower generation, transmission and distribution fees. The implementation of the price cap mechanism and a 20% reduction in the fixed-cost component recognized by the Energy Authority to cover production costs had a negative impact on our tariff revenues in 2001.

#### *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 only to 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 aggregate limit is exceeded, the distributor must compensate customers for the amount of the excess. If the limit is exceeded by less than a set threshold, the distributor can elect to apply a proportional reduction of tariffs in the following year, including an additional bonus; if the limit is exceeded by more than that threshold, each customer must be reimbursed in the following year for an amount equal to its proportionate share of the excess revenues plus the additional bonus. The threshold, which was 5% for excess revenues in the years 2000 and 2001, was raised to 10% by the Energy Authority decision adopted in October 2001. 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:

- 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.

*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 2002, the generation fixed-cost component has not been changed substantially. In order to ensure a gradual transition to the new tariff system, the fixed-cost component included in each of 2000 and 2001 an additional cost component of Euro 0.0031/kWh paid as a system charge. This additional cost component ceased to apply as of January 1, 2002. 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, since January 1, 2001 Component B is no longer calculated on a stand-alone basis but is instead 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.* Both Eligible and Non-Eligible Customers other than residential customers pay transmission fees to distributors on the basis of tariff options proposed by the latter and approved by the Energy Authority. Transmission fees for residential customers are set directly by the Energy Authority as part of the tariff paid by such customers to distributors.

Pursuant to a decision by the Energy Authority, effective January 1, 2002, transmission fees collected by distributors from Eligible and Non-Eligible Customers under any given tariff option reflect:

- the fee paid by distributors to the *Gestore della Rete* 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; and
- distribution costs, defined as the costs incurred by distributors for transportation of electricity through the local distribution network and for the sales-related services they provide to final consumers, plus
- a specified return on invested capital.

Distribution costs are calculated on the basis of average costs incurred by all Italian distributors and cover those costs as well as a specified return on invested capital. Because Non-Eligible Customers, and, since January 1, 2002, Eligible Customers, in the same category pay the same price for the delivery of electricity 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.

Prior to January 1, 2002, the Energy Authority set different prices to cover transmission and distribution costs for Eligible and Non-Eligible Customers. As a result of its decision of October 2001, and effective as of January 1, 2002, the Energy Authority established so-called transport charges which are equal for both Eligible and Non-Eligible Customers and are meant to cover transmission and distribution costs. These charges continue to include transmission and distribution prices to cover the costs of transmission and distribution as before.

*Adjustment of transmission 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 have been adjusted in each of 2001 and 2002 through a price cap mechanism; further adjustments are expected in 2003. During this 2001-2003 period, tariffs are expected to 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 other than for public lighting unchanged from those in effect in the first half of 2000, except for tariffs 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. Please refer to “—Tariff categories” for a description of tariff categories.

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 customers other than residential users, we offer several tariff options in addition to those established by the Energy Authority, taking into account variations in seasonal and time-of-day demand.

The Energy Authority has also approved the tariffs we proposed for 2002.

*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 was reduced by 50% in 2001 and eliminated in 2002;
  - Adjustments to the equalization mechanism, when implemented, 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 was eliminated at the end of 2001. This bonus was financed with a specific surcharge in 2000 and 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 through the process described below.

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 price for electricity on the pool market. 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 the Gencos, two decisions issued by the Energy Authority in May 2001 and November 2001 determined the values of recognized revenues and reference

level of production necessary to calculate stranded costs recoverable by Elettrogen and Eurogen for the years 2000 and 2001.

On January 9, 2002, the Administrative Court of Lombardy set aside the decision adopted by the Energy Authority with respect to the determination of recognized revenues and reference level for Elettrogen, which we had challenged on the grounds that it was in conflict with the criteria set for such determination by the Industry Ministry and the Treasury Ministry.

Enel expects that clarification regarding stranded costs will be provided in the very near future by the relevant authorities.

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 approximately Euro 7.7 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 simplified tariff categories by defining nine classes of consumers. Effective as of January 1, 2002, the Energy Authority further simplified tariff categories by eliminating prior distinctions between Eligible and Non-Eligible Customers. As a result, the six classes of consumers currently are

- low-voltage domestic consumers (residential customers);
- low-voltage public lighting;
- low-voltage for other uses (combining former separate categories for Eligible Customers and Non-Eligible Customers);
- medium-voltage public lighting;
- medium-voltage for other uses (combining former separate categories for Eligible Customers and Non-Eligible Customers); and
- high-voltage for other uses (combining former separate categories for Eligible Customers and 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. In 2001, Enel Distribuzione reached the targets and received a bonus of approximately Euro 4 million. See “—Business—The Enel Group—Customer Services”.

### *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%. In 2001, average tariff levels for sales of electricity to Non-Eligible Customers further declined by 10.4%. 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 in the years 2000 and 2001 has been mitigated by the bonus for the electricity produced for sale to Non-Eligible Customers (amounting to Euro 0.0031/kWh) that was eliminated in 2002 and the positive impact of the gradual implementation of the new tariff structure.

### *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 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 price (expressed in centeuro/kWh) and assuming constant consumption paid by customers to whom we directly supplied electricity during the period from January 1997 to January 2002, and the impact of the new tariff structure that came into effect in January 2000 and the new tariffs effective January 2002.

	<i>Average Direct Customers</i>						% change	% change	% change	% change
	January	January	January	January	January	January	January 1997/	January 2001	January 2000/	January 1997/
	1997	1998	1999	2000	2001	2002	January 2000	January 2002	January 2002	January 2002
										<i>(new tariff impact)</i>
Base tariff	6.14	6.14	6.15	5.50	4.80	4.77	-10.4	-0.6	-13.3	-22.3
Fuel	2.57	2.96	2.16	3.16	5.36	3.85	22.7	-28.2	22.0	49.7
System charges	1.02	0.82	0.99	1.07	0.60	1.27	5.1	111.7	18.8	24.8
Taxes	1.61	1.63	1.60	1.62	1.50	1.48	0.6	-1.3	-8.7	-8.2
Total	11.34	11.55	10.89	11.35	12.26	11.37	0.0	-7.3	0.2	0.3

From January 1997 to January 2002, our average price to final customers increased by 0.3% in nominal terms, which corresponds to a decrease of 9.2% in real terms.

From January 2001 to January 2002, our average price to final customers decreased by 7.3% in nominal terms, which corresponds to a decrease of 9.0% in real terms. The decrease in nominal terms was due to a 28.2% decrease in fuel costs, partially offset by a 111.7% increase in system charges.

### *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 Euro 0.0047/kWh) and for other uses (of Euro 0.0031/kWh excluding users with consumption over 1.2 GWh per month);
- Additional local taxes that vary from Euro 0.0093/kWh up to a maximum of Euro 0.0204/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 Euro 0.0023/kWh to Euro 0.0054/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 Annual Reports since 1998, the Communications Authority has 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;
- To promote liberalization in the broadcasting and media industry;
- Easing barriers to entry;
- Fostering the growth of new markets; and
- Protecting consumers.

Since February 1998, the Communications Authority has issued telecommunications licenses to approximately 235 operators, including not less than 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. Under a law recently enacted, Internet Service Providers are entitled to enter into interconnection agreements with Telecom Italia and to benefit from the same interconnection rates offered to telecom operators. 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 and 2001, the Communications Authority determined that Telecom Italia, Infostrada, Telecom Italia Mobile and Vodafone Omnitel would have to make contributions to the universal service fund, with total contributions equal to Euro 61.0 million and Euro 58.9 million for each year respectively. 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-line 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-line 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, Vodafone Omnitel, 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 Vodafone Omnitel are operators with significant market power and, as such, will have to offer fixed-line operators non-discriminatory and cost-based interconnection rates.

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 Euro 2,427.3 million. The UMTS license became effective on January 1, 2002 for a term of 15 years.

In 2001, the Communications Authority extended number portability to mobile telephony. As a result, competition in the mobile market has further increased.

### *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 (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), carbon dioxide (CO<sub>2</sub>) 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 expect to 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 SO<sub>2</sub> and NO<sub>x</sub>*

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 SO<sub>2</sub> emissions and total NO<sub>x</sub> emissions from generation plants licensed before July 1, 1988 and to establish emission limits for SO<sub>2</sub>, NO<sub>x</sub> and particulate matter from individual generation plants licensed after July 1, 1987. In 2001, new emission limits have been set by a Directive amending the LCPD. Member States have to implement the provisions of these Directives by November 2002. In addition, in

2001 the EU issued a directive on air pollution, whereby it mandated that Member States achieve specified reduction targets on SO<sub>2</sub>, NO<sub>x</sub>, COV and NH<sub>3</sub> emissions by 2010. To this end, Member States are required to establish and implement a program of emission reduction in order to achieve the targets set in the directive.

The amendment to the LCPD set out in 2001 affects the electricity sector in so far as it sets more stringent emission limits. However, the impact of the amendment on our operations is limited due to the fact that Italian legislation implementing the LCPD had already set more stringent standards than those required under the original provisions.

Italy is a member of the Helsinki Protocol and the Oslo Protocol, which require signatory countries to reduce SO<sub>2</sub> emissions, and the Sofia Protocol, which requires signatories to reduce NO<sub>x</sub> emissions. The requirements under these protocols have been reflected in Italian law.

*Principal Italian legislation regarding SO<sub>2</sub> and NO<sub>x</sub>*

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 by setting 5-year targets. In some cases the Italian limits are stricter than those imposed by the protocols and the LCPD. The following tables show our actual level of SO<sub>2</sub> and NO<sub>x</sub> emission reductions in each of 1993, 1998 and 2000, and aggregate emission reduction targets of the 1989 Italian ministerial decree for 1993 and 1998. The aggregate SO<sub>2</sub> emission reduction target of the decree for 2003 is 63%. No target has been set for NO<sub>x</sub> emission reduction for 2003.

<b>Reductions of SO<sub>2</sub> emissions against 1980 levels</b>		
<b><u>Year</u></b>	<b><u>Target</u></b>	<b><u>Enel's result</u></b>
1993	30%	57%
1998	39%	62%
2000	-	73%

<b>Reductions of NO<sub>x</sub> emissions against 1980 levels</b>		
<b><u>Year</u></b>	<b><u>Target</u></b>	<b><u>Enel's Result</u></b>
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. The program has been approved and 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.

<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 SO<sub>2</sub> and NO<sub>x</sub> 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 and 2001, our costs in connection with this tax were approximately Euro 27.3 million and Euro 21.7 million respectively.

#### *CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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. As of 1999, we produced approximately 22.5% 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 CO<sub>2</sub> 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, 2001 and 2002 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 CO<sub>2</sub> 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 CO<sub>2</sub> emissions without creating unequal burdens on certain types of generating facilities, particularly oil fired and baseload plants. In 2000 and 2001, our carbon tax liability amounted to approximately Euro 38.0 million and Euro 42.5 million respectively.

#### *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 legislation does not affect the operation of our plants, which are already in line with 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 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 2001:

- We added approximately 28,000 km of aerial insulated and underground medium voltage cables. In 2001, aerial insulated cables and underground cables represented 36% of our medium voltage lines, compared to 29.8% in 1994; and
- We added approximately 103,000 km of aerial insulated and underground low voltage cables. In 2001, aerial insulated cables and underground cables represented 81.2% 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. Rules concerning EMAS are contained in a

EU Regulation issued in 1993. In 2001, the EU passed a new regulation which permitted the utilisation of the EMAS system also for assets not used in production. As a consequence, we started an experimental study in order to adapt the environmental management and registration system to the high voltage transmission grid.

We are committed to obtain EMAS registration for 26 of our generation plants, representing 55% of our installed capacity. As of December 2001, 13 of our plants, representing approximately 30 % of our installed generating capacity, have obtained environmental certifications. All of these 13 plants obtained ISO 14001 certification, six obtained EMAS registration and the remaining seven have requested EMAS registration.

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 2001, our environmental capital expenditures totaled Euro 225 million, representing 5.5% of our total capital expenditures.

#### *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. 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, 2002, five million SDRs equaled approximately Euro 6.7 million.

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, 2001, we had 692 generating plants (including 52 plants owned by Eurogen), 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, 2001, of a total of 37,218 km of lines and 268 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, 2001 of a total of 1,062,240 km of lines, mostly medium and low voltage, and 407,291 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, 2001, we owned approximately 11,500 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, 2001, we owned real estate, mainly in Italy, with an approximate net book value of Euro 2,200 million, 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 estate 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. We are meeting this requirement through the disposal of the three newly formed companies we call the Gencos, Eurogen S.p.A., Elettrogen S.p.A. and Interpower S.p.A., which own generating plants having a net installed capacity totaling approximately 15,000 MW.

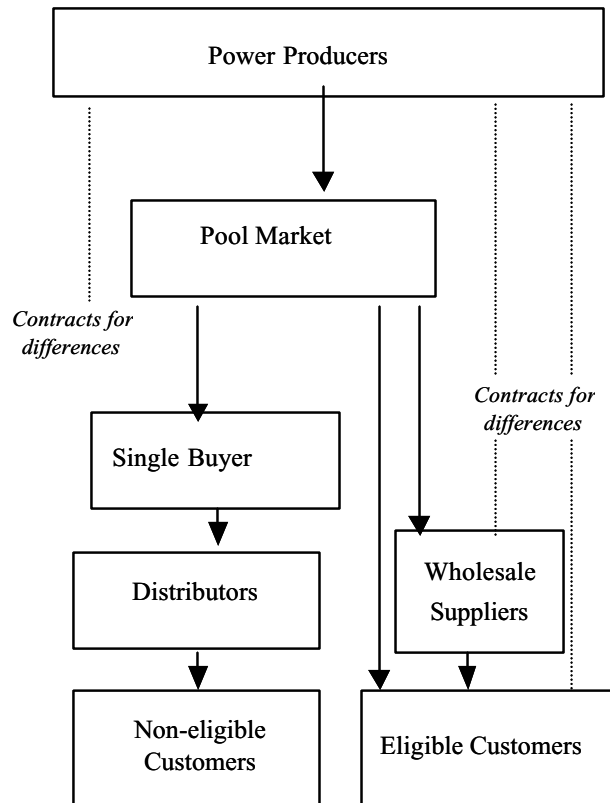
We completed the sale of Elettrogen and Eurogen in September 2001 and May 2002, respectively, and are in the process of disposing of Interpower. We may be required to dispose of additional generating capacity in connection with our acquisition of Infostrada. See— Outlook — Acquisition of Infostrada.

- *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 described below is expected to begin operations in the second half of 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. Further reductions in fees are expected in 2002 as a result of the application of the price cap mechanism to transmission and distribution charges 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 and Verona. As of June 30, 2002, we had completed the sale of our distribution networks located in in Roma and Formello, Turin, Trieste, Cremona and Parma.

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 in the second half of 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*

Most 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, in 1999 and 2000, principally related to our costs for fuel and electricity purchased from third parties. From January 2001, Equalization Fund contributions for fuel costs and imported electricity were abolished and a “fuel cost component” was included in the tariff.

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 in 2001 and 2002.

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 the second half 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 as compared to 1999. Average tariff levels declined by a further 10.4% in 2001 as compared to 2000, as a result of the introduction of the “price-cap” tariff methodology and a decrease of approximately Euro 0.0052 per kWh in the tariff component aimed at covering fixed generation costs. We expect the average tariff level to decline slightly in 2002 as a result of the application of the price cap mechanism to transmission charges. 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.

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 in January 2001, when an equivalent “fuel cost component” calculated in the same manner as the former Equalization Fund contributions for fuel costs was included in the generation cost component of the electricity tariff. As a result, this change has had no impact on the Group’s operations. Also, on January 1, 2001, all electricity produced under the CIP 6 regime was transferred to the *Gestore della Rete* to meet demand on the free market. As a consequence, we did not receive any Equalization Fund contributions for purchases of such electricity in 2001.

### *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 1997 to 2001, Italy’s real gross domestic product or GDP grew at an average annual rate of 2.0% as compared to an average annual rate of 2.6% 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. We estimate that growth in electricity demand in Italy increased by 2.3% in 2001.

Interest rates in Italy and the rest of Europe declined significantly during the period from 1997 to 1999, which was marked by European Monetary Union and Italy’s qualification for participation in the single European currency, before rising in 2000 and declining again in the second half of 2001, following the general slowdown of the economy. We believe that our policy of debt cost control effectively reflected these changes. The weighted average interest rate on our long-term debt declined from 6.8% as of December 31, 1997 to 4.6% at December 31, 1999, before rising to 5.4% as of December 31, 2000 and declining to 5.0% as of December 31, 2001. 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 application of the fuel cost component of the tariff described above, time lags between our actual purchase of fuel and the calculation and payment to us of such fuel cost component 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.

### *Critical Accounting Policies*

The results of operations, as presented above, are based on the application of generally accepted accounting principles. The application of these principles often requires management to make certain judgments, assumptions and estimates that may result in different financial presentations. We believe that certain accounting principles are critical in terms of understanding our financial statements. We believe that our most critical accounting policies relate to the following.

*Use of estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Certain accounting principles require subjective and complex judgments used in the preparation of financial statements.

Accordingly, a different financial presentation could result depending on the judgment, estimates or assumptions that are used. Such estimates and assumptions, include, but are not specifically limited to: depreciation, amortization, interest rates, discount rates, future commodity prices, investment returns, volatility in the price of the Company's ordinary shares, impact of new accounting standards, international economic policy, future costs associated with long-term contractual obligations and future compliance costs associated with environmental regulations. Actual results could materially differ from those estimates.

*Recoverability of Long-lived Assets.* We periodically review the carrying value of its long-lived assets held and used and that of assets to be disposed of, including goodwill and other intangible assets, when events and circumstances warrant such a review. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its estimated recovery value, in relation to its use or realization, as determined by reference to the most recent corporate plans. Management believes that the estimates of these recovery values are reasonable; however, changes in estimates of such recovery values could affect the relevant valuations. The analysis of each long-lived asset is unique and requires management to use certain estimates and assumptions that are deemed prudent and reasonable for a particular set of circumstances.

In particular, in 2001, we acquired the entire share capital of Infostrada and started the integration of Infostrada with WIND; the consolidated financial statements as of December 31, 2001 reflect the consolidation of Infostrada from the acquisition date. The recoverability of costs capitalized in connection with this transaction are subject to the achievement of profitability in the future by our telecommunication business.

*Realization of Deferred Tax Assets.* As of December 31, 2001, we had assets recorded for tax loss carry-forwards related to WIND and Infostrada of Euro 655 million. We have recorded our deferred tax assets at the amount that we believe is reasonably certain to be recovered. The recoverability of the deferred tax assets associated with the tax loss carry-forwards of such entities are subject to the achievement of future profitability by the merged entities. While we have considered future taxable income and used ongoing prudent tax planning strategies in assessing the need for valuation allowances, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

*Pension and Other Post-Retirement Benefits.* Certain of our employees are covered under pension plans, which allow for retirement benefits based upon compensation and years of service, and certain employees are also covered under other postretirement benefit plans. Several statistical and judgmental factors which attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions

about the discount rate, the rate of future compensation increases and health care cost trends. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates in making relevant estimates. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants and changes in the actual costs of health care. These differences may have a significant impact on the amount of pension and other post-retirement benefit expenses recorded.

*Litigation.* 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, it is not possible to predict the ultimate outcomes of certain of those matters, some of which may be unfavorable to us. However, provisions are made for all significant liabilities that are expected to materialize.

A number of disputes are pending in relation to urban planning, landscape and environmental matters (mainly related to exposure to electromagnetic fields) linked to the construction and operation of several of our generating plants and power lines. The examination of such disputes, also on the basis of legal advice, leads us 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, whose consequences could entail, in addition, the payment of damages. At the present time, such charges are not predictable and therefore, we have not accrued any liabilities for these disputes.

*Accounting for derivatives* 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). For U.S. GAAP purposes only, we use the criteria in SFAS 133, as amended and interpreted, to determine if certain contracts must be accounted for as derivative instruments. The rules for determining whether a contract meets the criteria for derivative accounting are numerous and complex. As a result, significant judgment is required to determine whether a contract requires derivative accounting, and similar contracts can sometimes be accounted for differently.

The types of contracts we currently account for as derivative instruments are interest rate swaps and locks, foreign currency exchange contracts, call options and swaps. We do not account for electric capacity and energy contracts, gas supply contracts, or purchase orders for numerous supply items as derivatives.

If a contract must be accounted for as a derivative instrument, the contract is recorded as either an asset or a liability in the financial statements at the fair value of the contract. Any difference between the recorded book value and the fair value is reported either in earnings or other comprehensive income depending on certain qualifying criteria. The recorded fair value of the contract is then adjusted quarterly to reflect any change in the market value of the contract.

In order to value the contracts that are accounted for as derivative instruments, we use a combination of market quoted prices and mathematical models. Option models require various inputs, including forward prices, volatilities, interest rates and exercise periods. Changes in forward prices or volatilities could significantly change the calculated fair value of the call

option contracts. The models we used have been tested against market quotes to ensure consistency between model outputs and market quotes.

For derivative instruments to qualify for hedge accounting under SFAS 133, the hedging relationship must be formally documented at inception and be highly effective in achieving offsetting cash flows or offsetting changes in fair value attributable to the risk being hedged. If hedging a forecasted transaction, the forecasted transaction must be probable. If a derivative instrument used as a cash flow hedge, is terminated early because it is probable that a forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative instrument used as a cash flow hedge, is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when then forecasted transaction affects earnings.

*Allowance for Doubtful Accounts.* The allowance for doubtful accounts reflects our estimate of losses inherent in our credit portfolio. We have reserved for expected credit losses, based on past experience with similar receivables, including current and historical past due amounts, write-offs and collections, the careful monitoring of portfolio credit quality and the current and projected economic and market conditions. We believe that our reserves are adequate; however, different assumptions or changes in economic circumstances could result in changes to the allowance for doubtful accounts.

*Stranded Costs.* In 2000, we recognized reserves aggregating Euro 117 million related to our recovery of so-called “stranded costs”. Our individual companies 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 Energy Authority on August 3, 2000. These calculations represented estimates as final reference parameters were not given by the Energy Authority. The individual companies recorded reserves in situations where actual revenues exceeded the related estimated revenues allowed by the Energy Authority.

A Ministerial Decree dated April 17, 2001 and Authority Resolution no. 114/01 dated May 25, 2001, introduced significant changes in the method used to calculate stranded costs. Based on the new mechanism, stranded costs may be determined only at the end of the full period considered for the reimbursement (2000 – 2006) and not for each individual fiscal year. In light of these regulatory changes, the amount accrued to the provision at December 31, 2000 has been reversed as income in 2001. Changes in regulatory framework and the issue from the Energy Authority of the final reference parameters could have a material impact in the accounting treatment of stranded costs.

### *Comparability of Information*

The inter-period comparability of the information presented in this section is significantly affected by changes in scope of consolidation of the Group and several other factors that should be considered when reviewing the performance of the individual segments and of the Group as a whole. In 2001, we consolidated the results of WIND on a line by line basis for the first time and completed a number of acquisitions and divestitures. These transactions had the effect of changing the scope of consolidation of the Group as a whole, as companies entered into or were

divested from the Group. Significant transactions that resulted in a change in the scope of consolidation during 2001 included:

- the consolidation on a line-by-line basis of the results of WIND S.p.A. effective January 1, 2001 and the consolidation on a line-by-line basis of Infostrada S.p.A. effective March 31, 2001, following our acquisition of this company;
- the consolidation on a line-by-line basis, effective January 1, 2001, of Enel Distribuzione Gas S.p.A., a company into which in November 2001 we merged twenty gas companies, most of which we acquired in 2001;
- the deconsolidation of Elettrogen S.p.A. effective of the date of its disposal, September 20, 2001;
- the deconsolidation as of the date of their divestiture of the activities of the distribution networks in the metropolitan areas of Rome and Formello, effective July 1, 2001, and Turin, effective December 31, 2001; and
- the deconsolidation of Valgen S.p.A., effective July 1, 2001, following the divestiture of this company to which we had previously contributed our generation activities in the Valle d'Aosta region.

Other factors that significantly affect the comparability of information for the period presented include:

- the major changes which the Italian electricity sector is currently undergoing and which significantly affect each of our operating segments, as described in more detail in “—The Electricity Market under the New Regulatory Framework” above. These changes, include, but are not limited to, changing tariff rates, the inclusion of a “fuel cost component” in the tariff following the abolition of the Equalization Fund contributions for fuel costs, the introduction of sales to Eligible Customers and the mandated reorganizations of some of our activities; and
- 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 2000 and 2001 with that in future periods.

Prior to January 1, 2001, the reporting currency of Enel and its consolidated subsidiaries was Italian lire. To facilitate a comparison, the consolidated financial statements and all other lire-denominated financial data for periods prior to January 1, 2001, presented have been restated from Italian lire to Euro at the fixed rate as of December 31, 1998 established by the European Central Bank of Lit. 1,936.27 = € 1.00. The comparative balances for prior years now reported

in Euro depict the same trends as would have been presented had the Group continued to report such amounts in Italian lire. The consolidated financial statements and other financial data for periods prior to January 1, 2001 may not be comparable to that of other companies reporting in Euro if those companies had restated from a reporting currency other than Italian lire.

### *Business segments*

Prior to 1998, we managed our operations on a consolidated basis, without separately identifiable business segments. 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, Enel Green Power, which specializes in energy from renewable sources, and the Gencos (Elettrogen until the date of its divestment), in addition to the operations of CHI Energy and EGI which are active in the Americas. Our generation segment earns operating revenues mainly 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. In accordance with the Bersani Decree, we divested Elettrogen in September, 2001, Eurogen in May, 2002, and are in the process of divesting Interpower.

*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 purchases of imported electricity 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.

*Corporate.* Our corporate segment's operations consist primarily of the purchase of fuel used by the thermal generating plants in our generation segment and the purchase of electricity from third parties. Effective January 1, 2001, title to contracts for the acquisition of electricity

from domestic producers was transferred to the *Gestore della Rete* pursuant to new regulations. Consequently, in 2001, corporate purchases of electricity consisted only of imports. The corporate segment sells electricity purchased from third parties to the distribution segment at prices established by the Energy Authority and sells fuel to the generation segment at cost. In 2001, most of the segment's fuel purchase contracts were transferred to Enel.FTL, which is part of our other activities segment. For the period through December 31, 2000, the corporate segment 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.

*Telecommunications.* Our telecommunications segment includes the operations of WIND. For the period from April 1, 2001, our telecommunications segment also includes the operations of Infostrada, which we acquired in March 2001. We merged Infostrada into WIND effective January 1, 2002. Our telecommunications activities include the offer of mobile telecommunications services, fixed-line telephony services, Internet and other telecommunications related services.

We formed WIND as a joint venture in 1997. Our stake in WIND initially was 51%, with France Télécom and Deutsche Telekom holding 24.5% each. As a result of Deutsche Telekom's exit at the end of July 2000, our stake increased to 56.63% and France Télécom's share grew to 43.37%. We acquired 100% of Infostrada at the end of March 2001. Effective July 30, 2001, we contributed all the shares of Infostrada to WIND in consideration for new shares issued to us in connection with a reserved capital increase. As a result of our contribution of Infostrada, our stake in WIND is now 73.425% with France Télécom holding the remaining 26.575%. Effective January 1, 2002 Infostrada was merged into WIND.

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 because of the existence of significant control restrictions provided for by the shareholders' agreement in place until July 2000. For U.S. GAAP purposes only, we 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. Since January 1, 2001, we have consolidated WIND using the line-by-line method under both Italian GAAP and U.S. GAAP. For the purposes of comparing our 2001 results with those for 2000, we have prepared certain unaudited selected financial data on a consolidated Italian GAAP basis to illustrate the estimated effects of the consolidation on a line-by-line basis of WIND for the period from January 1, 2000 through December 31, 2000, and the acquisition of Infostrada as if we had owned and consolidated Infostrada for the period from April 1, 2000 through December 31, 2000.

*Other Activities.* Our other activities segment includes our engineering and construction, fuel trading, real estate management and general services, information technology services, research and development and electricity systems-related activities. The other activities segment also includes the gas distribution companies we acquired in 2000 and 2001. 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.

## 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 new tariff structure effective from January 1, 2000, and the price cap mechanism established by the Energy Authority;
- The completion of our disposal of the Gencos, which must occur by January 1, 2003 and any additional divestitures ultimately required in connection with antitrust approval for our acquisition of Infostrada;
- Sales 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 the second half of 2002, which will cause our generation activities to be remunerated based on competitive electricity prices rather than tariffs; 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 2002, we believe that this year we will produce less electricity than in 2001, due to our sale of Eurogen and the increase in production by independent power producers and sales by importers. We also expect that in 2002 our sales of electricity to Non-Eligible Customers will decrease due to the ongoing liberalization of the market. However, we expect that the impact of any such decrease will be offset to some extent by increased sales to Eligible Customers through Enel Trade, as well as increased fees paid by third parties for transport of power on our network.

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 9,100 between December 31, 2001 and the end of 2006, equivalent to approximately 13% of our workforce of 72,661 persons at December 31, 2001. 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. In this regard, we have already reduced our total number of employees by 23.9% between the end of 1996 and the end of 2001, notwithstanding the increase of the number of employees in our

telecommunications segment due to the consolidation of WIND and the acquisition of Infostrada, which together accounted for 8,428 employees at December 31, 2001.

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 transferred to the *Gestore della Rete*: 614 employees, assets with an aggregate book value of approximately Euro 60.4 million (net of technical depreciation) and liabilities in an aggregate amount of approximately Euro 40.8 million, 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, 2000 or 2001.
- We 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, 2000 or 2001;
- We sold all of the outstanding shares of Elettrogen for total consideration of Euro 3,585 million, including Euro 2,687 million in cash and the assumption of Euro 898 million in debt on September 20, 2001. We sold all of the outstanding shares of Eurogen for total consideration of Euro 3,808 million, including Euro 3,057 million in cash (which may increase or decrease as a result of the application of the price adjustment mechanism provided by the agreement) and the assumption of Euro 751 million in debt, on May 31, 2002. In April 2002, we started the auction process for the sale of the third Genco, Interpower, which we expect to complete in the second half of 2002.

In connection with the formation of the Gencos in 1999, we transferred to them an aggregate of approximately 5,100 employees, Euro 4,200 billion of assets, including 15,057 MW of net installed capacity, and Euro 3,300 billion of liabilities. In 2001, approximately 22.8% of our total net production, approximately 9.9% of our total revenues and approximately 10% 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 for Eurogen and Interpower at December 31, 2001 and for the year then ended, and for Elettrogen at September 19, 2001 (the last date we owned it) and for the period between January 1, 2001 and September 19, 2001. The actual impact of our transfer of the Gencos may differ significantly

from these figures, in part because of the changing market structure and other regulatory developments, and the uncertainty surrounding the effective date of the disposal of Interpower. Intercompany purchases and sales of energy between the Gencos and the other members of the Enel Group have been based on market prices, since January 1, 2000. As separate legal entities, since their formation, Elettrogen, Eurogen and Interpower have maintained 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, have been made by the Gencos, and are now made by Interpower individually. In addition, since their formation, Elettrogen, Eurogen and Interpower have made 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 completion of the disposal of the Gencos unless we are able to offset the decrease in sales volumes of our generation business in Italy through improved efficiencies, diversification of our operations or international expansion. We continued to fully include the results of Elettrogen and Eurogen, and will continue to fully include the results of Interpower in our consolidated results until the date of their disposal. We may be required to dispose of additional generating capacity in connection with our acquisition of Infostrada. See—Acquisition of Infostrada. Were we to have to dispose of additional generating capacity, our gross installed capacity and our share of the overall Italian electricity production would decrease further.

The proceeds we derive from any disposal of assets, including the Gencos, 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 wholly 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 alternative 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 Euro 7,250 million, was paid in full on the same date. As provided for in the share purchase agreement, Mannesman Investment BV was also repaid by us Euro 132 million 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 Euro 821.2 million due to Vodafone by Infostrada and became a creditor of Infostrada for the same amount. In addition, in connection with the acquisition, we incurred certain ancillary costs amounting to approximately Euro 375 million.

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 was subject to our disposal of 5,500 MW of generation capacity (60% of which must consist of *mid-merit* and *peak* plants), and required 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”). This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada. As agreed with Vodafone, the outcome of such matter 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 Euro 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 this debt through the issuance of Euro 2 billion in medium term notes with a maturity of three years (see “—Liquidity and Capital Resource—Capital Resources”). We merged Infostrada into WIND, effective January 2002 and are integrating the operations of Infostrada and Wind.

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 Euro 7,250 million, and the Euro 132 million paid to Mannesman Investment BV at the time of the acquisition, are approximately Euro 7,256 million 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 certain ancillary costs amounting to Euro 375 million which increased the goodwill associated with our purchase of Infostrada to Euro 7,631 million. Under Italian GAAP, we will have to amortize this goodwill over a period of 15 years. In 2001, we amortized Euro 382 million of this goodwill during the nine month period from the date of the acquisition to the end of the year.

## **Results of Operations**

The following table shows certain financial data for the years ended December 31, 1999, 2000 and 2001, expressed in each case as a percentage of our operating revenues:

	<b>Year ended December 31,</b>		
	<b>1999</b>	<b>2000</b>	<b>2001</b>
Operating revenues .....	100.0%	100.0%	100.0%
Operating expenses .....			
Personnel.....	(18.2)	(14.1)	(12.9)
Fuel.....	(15.5)	(22.5)	(18.2)
Purchased power.....	(16.8)	(17.4)	(12.7)
Depreciation and amortization .....	(15.3)	(13.8)	(15.5)
Other operating expenses .....	(8.5)	(13.3)	(28.6)
Total.....	<u>(74.3)</u>	<u>(81.1)</u>	<u>(87.9)</u>
Operating income.....	25.7	18.9	12.1
Financial expense.....	(2.8)	(2.6)	(3.9)
Equity losses .....	(1.1)	(1.8)	(0.3)
Extraordinary income (expense).....	<u>(2.6)</u>	<u>0.8</u>	<u>8.1</u>
Income before taxes .....	19.2	15.3	16.0
Income taxes .....	<u>(8.0)</u>	<u>(6.6)</u>	<u>(2.3)</u>
Net income .....	<u>11.2%</u>	<u>8.7%</u>	<u>13.7%</u>

## 2001 compared with 2000

### Operating revenues

The following table shows the different sources of our operating revenues for the years ended December 31, 2000 and 2001.

	<b>Year ended December 31,</b>	
	<b>2000</b>	<b>2001</b>
	<b>(in millions)</b>	
Electricity sales		
Tariff revenues from sales on the regulated market.....	Euro 11,488	Euro 18,370
Sales to eligible customers and to <i>Gestore della Rete</i> .....	1,298	2,507
Equalization Fund contributions for:		
Fuel costs .....	5,367	--
Electricity imports, electricity purchases and other.....	<u>4,411</u>	<u>783</u>
Total.....	<u>Euro 22,564</u>	<u>Euro 21,660</u>
Other revenues:		
Telecommunications services	--	Euro 2,817
Reimbursement of costs for customer connections, inspections and repositioning services .....	Euro 631	591
Other <sup>(1)</sup> .....	<u>1,914</u>	<u>3,713</u>
Total other revenues .....	<u>2,545</u>	<u>7,121</u>
Total operating revenues .....	<u>Euro 25,109</u>	<u>Euro 28,781</u>

(1) "Other" mainly includes fees for the transmission of electricity, revenues from our engineering and construction, gas distribution, fuel trading, public lighting, franchising, and research and development operations other than reimbursements and sales of materials.

Our consolidated operating revenues for 2001 increased by Euro 3,672 million, or 14.6%, compared to 2000. The increase in our operating revenues was primarily due to the consolidation of our telecommunications companies that were not consolidated in 2000, as described in more detail in "—Overview—Business Segments". The increase in our operating revenues was also due to an increase in other revenues. We estimate that our revenues would

have increased by approximately Euro 2,021 million, or 7.6%, if we had consolidated WIND for the period from January 1, 2000 through December 31, 2000, and had owned and consolidated Infostrada for the period from April 1, 2000 through December 31, 2000.

In 2001, our revenues from electricity sales and Equalization Fund contributions decreased by Euro 904 million, or 4.0%. The decline was primarily attributable to lower tariffs for electricity sold on the regulated market, which decreased on average by approximately 10.4% due to the introduction of the “price-cap” tariff methodology and the decrease of approximately Euro 0.0052 per kWh in the tariff component aimed at covering fixed production costs. The decrease in revenues from electricity sales and Equalization Fund contributions also reflected a 7.2% decline in the total volume of electricity sold in both the regulated and free markets. Finally, as of January 1, 2001, Equalization Fund contributions no longer include reimbursement for fuel costs, as a component aimed at covering fuel costs is now included in the tariff. In 2001, the tariff component aimed at covering fuel costs grew on average by approximately 12.5%.

The effect on our revenues of the lower electricity tariffs and lower volume of electricity sold was only partially offset by the introduction, in January 2001, of a single price for electricity, which applies also to sales of hydroelectric and geothermal electricity and which includes a component relating to variable production costs that was previously covered by Equalization Fund contributions only with respect to the generation of thermal electricity.

In 2001, total other revenues increased by Euro 4,576 million, or 179.8%, of which Euro 2,817 million was attributable to the first-time consolidation of our telecommunications companies. The increase also reflected higher revenues from businesses other than electricity and telecommunications, which rose by Euro 1,759 million, or 69.1%, primarily due to higher sales to third parties by our fuel trading, engineering and construction and gas distribution activities.

The following table shows our operating revenues for each of our business segments for the periods presented.

	<b>Year ended December 31,</b>	
	<b>2000</b>	<b>2001</b>
	<b>(in millions)</b>	
Generation.....	Euro 11,530	Euro 11,837
Transmission .....	771	793
Distribution.....	13,903	21,629
Corporate.....	9,800	3,980
Telecommunications.....	--	3,176
Other activities .....	3,289	6,396
Eliminations .....	<u>(14,184)</u>	<u>(19,030)</u>
Total	<u><b>Euro 25,109</b></u>	<u><b>Euro 28,781</b></u>

*Generation.* Operating revenues of our generation segment for 2001 increased by Euro 307 million, or 2.7%, as compared to 2000. The increase was primarily attributable to the introduction, in January 2001, of a single price for electricity, which applies also to sales of hydroelectric and geothermal electricity and which includes a component relating to variable production costs that was previously covered by the Equalization Fund contributions only with respect to the generation of thermal electricity, and to higher revenues from the fuel component of the tariffs paid in the first months of 2001, which reflected high fuel costs in the last quarter of

2000. In 2001, revenues of our generation segment also included non-recurring revenues of Euro 431 million, of which Euro 314 million related to the receipt of CIP 6 contributions accrued in past years and Euro 117 million resulted from the release of a provision created in 2000 to cover potential liability for stranded costs that we believe will not accrue under the new method to calculate stranded costs introduced by the Ministerial Decree and the Energy Authority's decision issued in 2001. The positive impact of these factors was partially offset by a decline of 7.4% in net domestic generation, primarily attributable to the sale of Elettrogen and Valgen during 2001, and a decrease of approximately Euro 0.0052 per kWh in the tariff component aimed at covering fixed production costs.

*Transmission.* Transmission revenues increased by Euro 22 million, or 2.9%, due primarily to the increased scope of the segment's activities following the transfer of responsibility for the maintenance of our high voltage distribution network from Enel Distribuzione. Revenues from fees to access the national transmission network were Euro 709 million and relatively unchanged as compared to 2000.

*Distribution.* Operating revenues of our distribution segment for 2001 increased by Euro 7,726 million, or 55.6%, primarily due to the new tariff structure which, starting on January 1, 2001, includes a component aimed at covering fuel costs, which had been previously been the subject of Equalization Fund contribution paid to the generation segment. Revenues from sales to Eligible Customers increased by Euro 701 million, or 55.9%, reflecting an increase of approximately 28.3% in the volume of electricity sold and an increase of approximately 21.3% in revenues per unit that reflected the higher fuel component of the tariff and higher sales of medium-voltage electricity. Revenues from transport fees also increased by Euro 161 million, or 14.1%, mainly due to higher quantities of electricity sold to Eligible Customers. The positive impact of these factors was partially offset by the effect of the price-cap tariff methodology introduced in 2001, which reduces tariffs by a fixed percentage each year, and a reduced total volume of electricity sold on the regulated market, which decreased by 11.0%, as compared to 2000.

*Telecommunications.* In 2001, the telecommunications segment recorded operating revenues of Euro 3,176 million, of which Euro 2,256 million was attributable to WIND and Euro 920 million was attributable to Infostrada for the nine month period from the date of the acquisition to the end of the year. As compared to the unaudited selected financial data we prepared for comparison purposes only for the year 2000, telecommunications revenues increased by Euro 1,040 million or 48.0% from Euro 2,136 million.

*Corporate.* In 2001, operating revenues of our corporate segment were Euro 3,980 million, of which Euro 3,542 million was attributable to intra-Group sales of fuel and electricity and Euro 243 million to revenues from assistance and consulting services provided to companies of the Group. As compared to 2000, corporate revenues decreased by approximately Euro 5,820 million, or 59.4%, primarily as a result of the transfer of the contracts for the purchase of electricity from national producers to the *Gestore della Rete*, effective January 1, 2001, and the transfer of most of the fuel purchase contracts to Enel.FTL, which is part of our other activities segment.

*Other activities.* In 2001, revenues from other activities increased by Euro 3,107 million, or 94.4%. Of the total increase, approximately Euro 1,562 million reflected increased revenues from new businesses such as fuel trading (approximately Euro 651 million), engineering and contracting (approximately Euro 406 million) and gas distribution (approximately Euro 371 million), and, approximately Euro 1,390 million, reflected higher sales of fuel from Enel.FTL to our generation companies as a result of the transfer from the Company to Enel.FTL. of most of its fuel purchase contracts.

*Eliminations.* Eliminations in operating revenues primarily relate to intersegment sales (primarily of fuel and electricity) and services (primarily engineering and construction) and increased by Euro 4,846 million, or 34.2%, as compared to 2000, mainly as a result of the new tariff mechanism, under which distribution companies pay to generation companies the full price of the electricity sold, including the components that were covered by Equalization Fund contributions in 2000.

### ***Operating expenses***

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

	<b>Year ended December 31,</b>	
	<b>2000</b>	<b>2001</b>
	<b>(in millions)</b>	
Operating expenses:		
Personnel.....	Euro 3,531	Euro 3,722
Fuel for thermal generation.....	5,644	5,249
Purchased power.....	4,373	3,649
Other operating expenses:		
Services and rentals .....	2,453	5,633
Materials and supplies .....	848	2,349
Provisions .....	534	599
Other .....	392	577
Capitalized expenses.....	(878)	(934)
Total.....	<u>Euro 16,897</u>	<u>Euro 20,844</u>

Our consolidated operating expenses for 2001 increased by Euro 3,947 million, or 23.3%, as compared to 2000. Expressed as a percentage of operating revenues, operating expenses increased from 67.3% to 72.4%. The increase in our operating expenses was primarily due to the consolidation of telecommunications companies that were not consolidated in 2000, which accounted for operating expenses (net of intragroup transactions) of Euro 3,185 million in 2001. The telecommunications segment's operating expenses in 2001 related primarily to costs for services and rentals (Euro 2,337 million), costs for personnel (Euro 297 million) and costs for material and supplies (Euro 287 million). The increase in our operating expenses also reflected higher costs for services and rentals and for materials and supplies in segments other than our telecommunications segment; these costs increased by Euro 1,144 million and Euro 1,214 million, respectively. Other costs in segments other than our telecommunications segment also increased by Euro 56 million due to higher indirect and local taxes and charges related to the establishment by the Energy Authority of a system of bonuses and penalties to enhance the

quality of service provided by electricity companies. The negative effects of these factors were partially offset by certain cost reductions in segments other than our telecommunications segment, including reductions in costs for purchased power, which decreased by Euro 724 million, costs for fuel for thermal generation, which decreased by Euro 395 million, provisions, which decreased by Euro 132 million, and costs for personnel, which decreased by Euro 106 million. Finally, following WIND's consolidation our consolidated operating expenses no longer include costs related to payments to WIND in consideration of telecommunication services provided to our Group; these costs amounted to Euro 301 million in 2000.

Personnel costs in 2001 were Euro 3,722 million, of which Euro 297 million were attributable to our telecommunications segment. Personnel costs in segments other than our telecommunications segment decreased by approximately Euro 106 million, or 3.0%, partially due to a decrease of approximately 7.0% in the average number of employees in these segments. The decline in headcount was primarily attributable to the disposal of Elettrogen and certain municipal electricity distribution networks and to early retirements spurred by incentives. The impact of these factors on personnel costs was only partially offset by the negative impact of certain payments that we were required to make under the new collective bargaining agreement that came into effect as of July 24, 2001.

Costs for fuel for thermal generation in 2001 were Euro 5,249 million, having declined by Euro 395 million, or 7.0%, primarily due to a decrease of 9.2% in the volume of electricity produced from thermal sources, the effect of which was only partially offset by the higher average purchase price of coal and the appreciation of the US dollar (the currency in which most of our fuel purchases are denominated) against the Euro.

Purchased power costs in 2001 were Euro 3,649 million, having declined by approximately Euro 724 million, or 16.6%, notwithstanding a 2.8% increase in the volume of energy purchased during the year, reflecting lower unit costs for electricity acquired at direct auctions held by the *Gestore della Rete*.

Services and rentals costs in 2001 were Euro 5,633 million, of which Euro 2,337 million were attributable to our telecommunications segment (net of intragroup transactions). Services and rentals costs in segments other than our telecommunications segment increased by Euro 1,144 million, or 46.6%, due primarily to a Euro 638 million increase in the surcharge paid to the *Gestore della Rete* with respect to the generation of hydroelectric or geothermal electricity. Please refer to "Item 4. Information on the Company—Regulatory Matters— Tariffs for Non-Eligible Customers." Services and rentals costs in segments other than our telecommunications segment also increased as a result of an increase of approximately Euro 155 million in costs for electricity transport due to higher volumes of electricity sold to Eligible Customers, an increase of approximately Euro 120 million in the cost of external services used in our engineering and contracting activities, which grew significantly during the year, and an Euro 90 million increase in leases and rental expenses due to the transfer of some of our real estate and motor vehicle leasing activities to affiliated companies.

Materials and supplies costs in 2001 were Euro 2,349 million, of which approximately Euro 287 million were attributable to our telecommunications segment. Materials and supplies costs in segments other than our telecommunications segment increased by approximately Euro

1,214 million, or 143.2%, primarily due to approximately Euro 883 million in additional costs for fuel acquired for trading activities and gas acquired for distribution, as well as Euro 296 million in additional costs for materials mostly used in our engineering and construction operations, which grew significantly during the year.

Provisions in 2001 were Euro 599 million, of which approximately Euro 197 million were attributable to our telecommunications segment. Provisions in segments other than our telecommunications segment decreased by Euro 132 million, or 24.7%, primarily due to the release of a provision of Euro 117 million created in 2000 to cover potential liability for stranded costs that we now believe will not accrue under the new method to calculate stranded costs introduced by the Ministerial Decree and the Energy Authority's decision issued in 2001.

Other costs in 2001 were Euro 577 million, of which approximately Euro 129 million were attributable to our telecommunications segment. Other costs in segments other than our telecommunications segment increased by Euro 56 million, or 14.3%, due primarily to higher indirect and local taxes and charges related to the establishment by the Energy Authority of a system of bonuses and penalties to enhance the quality of service provided by electricity distribution companies.

Capitalized expenses in 2001 were Euro 934 million, of which approximately Euro 54 million were attributable to our telecommunications segment. Capitalized expenses in segments other than our telecommunications segment were relatively unchanged as compared to 2000.

The following table shows a breakdown of our operating expenses by business segment for each of the periods presented.

	<b>Year ended December 31,</b>	
	<b>2000</b>	<b>2001</b>
	<b>(in millions)</b>	
Generation.....	Euro 7,767	Euro 7,966
Transmission .....	304	324
Distribution.....	10,804	18,601
Corporate.....	9,305	3,642
Telecommunications .....	--	3,345
Other activities .....	2,838	5,904
Eliminations .....	<u>(14,121)</u>	<u>(18,938)</u>
Total.....	<u>Euro 16,897</u>	<u>Euro 20,844</u>

*Generation.* Operating expenses for the generation segment, which primarily consist of fuel costs, access fees to the national transmission network, and personnel and maintenance costs for our production plants, increased by Euro 199 million, or 2.6%, in 2001 as compared to 2000. The increase was due primarily to a Euro 638 million increase in the surcharge paid to the *Gestore della Rete* with respect to the generation of hydroelectric or geothermal electricity. Please refer to "Item 4. Information on the Company—Regulatory Matters— Tariffs for Non-Eligible Customers." The negative impact of this factor was partially offset by a decrease of Euro 250 million in fuel costs due to a decline in consumption, and by the sale of Elettrogen, which we estimate resulted in reduction of costs amounting to approximately Euro 180 million.

*Transmission.* Operating expenses for our transmission segment increased by Euro 20 million, or 6.6%, primarily as a result of its increased scope of activities following the transfer from Enel Distribuzione of the maintenance of our high voltage distribution network.

*Distribution.* Operating expenses for our distribution segment, which primarily consist of purchased power and costs associated with running our distribution network, increased by Euro 7,797 million, or 72.2%, in 2001 as compared with 2000. The increase was primarily attributable to the fact that the segment's costs for purchasing power on the regulated market rose by approximately Euro 7,197 million due to the new tariff which, starting on January 1, 2001, includes a component aimed at covering fuel costs, which had been previously covered by Equalization Fund contributions paid to the generation segment. An additional increase of Euro 700 million in the segment's costs for purchased power was attributable to higher volumes of power that we sold on the free market in 2001. Personnel costs in our distribution segment decreased by approximately Euro 100 million due to reductions in headcount.

*Telecommunications.* Operating expenses for our telecommunications segment totaled Euro 3,345 million in 2001, of which Euro 2,463 million represented costs for services and rentals, Euro 297 million represented costs for personnel, and Euro 287 million represented costs for materials and supplies. As compared to the unaudited selected financial data we prepared for the year 2000, telecommunications expenses increased by approximately Euro 599 million, or 21.8%, from Euro 2,746 million.

*Corporate.* Operating expenses of our corporate segment decreased in 2001 by Euro 5,663 million, or approximately 61.0%. This decrease was primarily due to a decrease of Euro 5,695 million in costs for purchases of fuel and electricity due to the transfer of the contracts for the purchase of electricity from national producers to the *Gestore della Rete* effective January 1, 2001, and the transfer of most of our fuel purchase contracts to Enel.FTL, which is part of our other activities segment. In addition, costs for personnel decreased by approximately Euro 59 million in 2001 as compared to 2000. Costs for services and rentals in our corporate segment increased by approximately Euro 43 million in 2001 as compared to 2000.

*Other activities.* Operating expenses for our other activities segment increased by Euro 3,066 million, or 108.0%, in 2001 as compared to 2000, principally as a result of the expansion of certain of our new activities. In particular, costs for purchases of fuel by Enel.FTL increased by Euro 2,000 million due to the transfer of most of our fuel purchase contracts from Enel S.p.A. to Enel.FTL and the expansion of its trading activities. Operating expenses for our engineering and construction activities increased by Euro 546 million and costs for purchases of natural gas for our gas distribution companies increased by Euro 320 million, reflecting the growth of their respective operations. Finally, approximately Euro 200 million of the overall increase was attributable to our information technology and public lighting activities, and to the development of a franchising network for the provision of electricity related services.

*Eliminations.* Eliminations for operating expenses principally consist of the elimination of intersegment electricity and fuel purchases and costs for the provision of intersegment services. The increase of Euro 4,817 million, or 34.1%, was in line with the corresponding amount relating to operating revenues.

## 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,	
	2000	2001
	(in millions)	
Generation.....	Euro 1,409	Euro 1,362
Transmission .....	229	240
Distribution.....	1,612	1,535
Corporate.....	7	2
Telecommunications.....	--	1,068
Other activities .....	202	252
Total.....	<u>Euro 3,459</u>	<u>Euro 4,459</u>

Depreciation and amortization for 2001 increased by Euro 1,000 million, or 28.9% as compared to 2000, primarily as a result of the first time consolidation of our telecommunications companies. Depreciation and amortization for our telecommunications segment during the year totaled 1,068 million, of which Euro 382 million related to the amortization of the Euro 7,631 million in goodwill associated with our acquisition of Infostrada in March 2001. Under Italian GAAP, amortization is recorded on a straight-line basis over a period of 15 years, with the amount recorded in 2001 relating to the nine months from the date of the acquisition to the end of the year. Depreciation and amortization in segments other than our telecommunications segment decreased by Euro 68 million or 2.0% as compared with 2000, primarily due to an aggregate decline of Euro 118 million in the electricity sector, reflecting increased efficiency in the implementation of our investments. This factor was partially offset by an increase of Euro 50 million in depreciation and amortization in other activities, mainly due to the development of our gas distribution network and information technology activities.

## Operating income

The following table shows operating income for each of our business segments for the periods presented:

	Year ended December 31,	
	2000	2001
	(in millions)	
Generation.....	Euro 2,354	Euro 2,509
Transmission .....	237	229
Distribution.....	1,488	1,493
Corporate.....	488	336
Telecommunications.....	--	(1,237)
Other activities .....	243	222
Eliminations .....	(57)	(74)
Total.....	<u>Euro 4,753</u>	<u>Euro 3,478</u>

Operating income decreased by Euro 1,275 million, or 26.8%, in 2001 as compared to 2000, primarily due to the first time consolidation of our telecommunications companies. Our

telecommunications segment recorded an operating loss of Euro 1,237 million in 2001, reflecting the significant level of their expenses and investments incurred as they develop their businesses. Operating income of segments other than our telecommunications segment decreased by approximately Euro 38 million, or 0.8% or as compared to 2000, primarily due to decreases in the operating income of our corporate and other activities segments.

*Generation.* Operating income of our generation segment increased by Euro 155 million, or 6.6%, in 2001 as compared to 2000, primarily due to non-recurring income of Euro 431 million, of which Euro 314 million related to the receipt of CIP 6 contributions related to past years and Euro 117 million to our reversal of a provision for potential liability for stranded costs, which we now believe will not accrue under the new method to calculate stranded costs introduced by the Ministerial Decree and the Energy Authority's decision issued in 2001. The increase also reflected a decrease of Euro 47 million in depreciation. The positive impact of these factors was partially offset by a decrease of Euro 280 million in operating income earned from sales of electricity that reflected lower tariffs and lower volumes of electricity generated, and the disposal of Elettrogen in September 2001, which reduced the sector's operating income for the year by approximately Euro 70 million.

*Transmission.* Operating income of our transmission segment decreased by Euro 8 million, or 3.4% , in 2001 as compared to 2000, mainly due to higher depreciation for new lines which came into operation in 2001.

*Distribution.* Operating income of our distribution segment in 2001 increased by Euro 5 million, or 0.3% primarily due to lower depreciation of Euro 77 million. This factor was partially offset by a decrease of Euro 47 million in connection fees and a decline in other ancillary revenues.

*Telecommunications.* Our telecommunications segment recorded an operating loss of Euro 1,237 million, of which Euro 572 million was attributable to operating losses at WIND and Euro 245 million was attributable to those at Infostrada for the nine month period from the date of the acquisition to the end of the year. In each case, the operating losses reflected the high level of expenses incurred by our telecommunications companies in line with their business plans. The segment's overall operating loss in 2001 also reflected Euro 420 million in amortization of goodwill, primarily that associated with our acquisition of Infostrada (Euro 382 million) and our acquisition of a portion of the interest previously held in WIND by Deutsche Telekom (Euro 38 million). As compared to the selected financial data we prepared for the year 2000, the operating loss of the telecommunications segment decreased by approximately Euro 216 million or 14.9% from estimated losses of Euro 1,453 million in 2001, of which Euro 401 million was attributed to amortization of goodwill.

*Corporate.* Operating income of our corporate segment decreased by Euro 152 million, or 31.1% , as compared to 2000 mainly as a result of the transfer of the contracts for the acquisition of electricity from domestic producers to the *Gestore della Rete*.

*Other activities.* Operating income of our other activities decreased by Euro 21 million, or 8.6%, as compared to 2000. This decrease was primarily due to a decrease of Euro 52 million in operating income from our real estate and services operations following the contribution of

certain activities to unconsolidated joint ventures. The negative impact of this factor was partially offset by an increase of Euro 44 million in operating income from our fuel trading and gas distribution activities.

### ***Financial expense***

Net financial expense increased by Euro 462 million, or 71.3%, from Euro 648 million in 2000 to Euro 1,110 million in 2001, mainly due to the first time consolidation of our telecommunications companies, as well as an increase in our average net financial debt from Euro 12,466 million in 2000 to Euro 20,743 million in 2001 that was attributable to our financing of the acquisition of Infostrada and companies in the gas distribution and renewable resources generation sectors.

### ***Equity losses***

The Euro 85 million charge recorded in 2001 consists primarily of write-downs in the value of investments in other companies, of which Euro 56 million related to our holdings in Echelon Corporation, Euro 10 million to certain interests held by CHI Energy, and Euro 17 million to venture-capital investments. The decrease of Euro 373 million in the total charge as compared to 2000 reflects the fact that the 2000 result included Euro 420 million representing our share of equity losses and goodwill amortization in WIND, which is now consolidated.

### ***Extraordinary income (expense)***

We recorded net extraordinary income of Euro 2,318 million in 2001, as compared to Euro 192 million in 2000.

Extraordinary income for 2001 principally consisted of:

- A capital gain on the sale of Elettrogen of Euro 1,900 million;
- Euro 501 million relating to electricity supplied in the last part of 2000 but billed in 2001 applying the tariff valid until the end of 2000, which did not include a fuel cost component. We recorded this item as extraordinary income to retain comparability between revenues and costs related to the sale of electricity in 2001;
- Capital gains on the disposal of generation plants located in the Valle d'Aosta region and of 49% of Deval totaling Euro 444 million;
- Capital gains on the disposal of the distribution networks in the municipalities of Rome and Turin, totaling Euro 391 million;
- Capital gains on the disposal of other assets totaling Euro 87 million; and
- The receipt of Euro 40 million relating to the settlement of outstanding contributions from the Equalization Fund relating to previous years.

This extraordinary income was partially offset by extraordinary expenses that principally consisted of:

- A write-down of Euro 443 million due to our early replacement of analog meters with new digital meters;
- A write-down of Euro 224 million in the value of plants and an accrual of expected costs for decommissioning, as a result of the conversion of certain of our generating plants to combined-cycle technology;
- Incentives paid to participants in early retirement programs totaling Euro 190 million;
- Charges connected with the integration of WIND and Infostrada's businesses, totaling Euro 125 million;
- Capital losses on disposal of assets and other extraordinary write-downs totaling Euro 76 million.

You should read note 25 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.

	<b>Year ended December 31,</b>	
	<b>2000</b>	<b>2001</b>
	<b>(in millions)</b>	
Income taxes:		
Current and deferred taxes .....	Euro 1,797	Euro 1,252
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates .....	(148)	--
Release of deferred tax provision following freeing-up of accelerated depreciation reserves .....	--	(603)
Total.....	<u>Euro 1,649</u>	<u>Euro 649</u>

The total tax charge for 2001 was Euro 649 million, which was Euro 1,000 million or 60.6% lower than the charge for 2000. This decrease was primarily due to the reversal of deferred taxes accrued through December 31, 2000 on reserves for accelerated depreciation for a total amount of Euro 1,315 million, following the introduction of a 19% substitute tax at the end of 2001. The Italian Budget Law for 2002 offers companies the option to release reserves for deferred taxes created in connection with accelerated depreciation of assets for tax purposes by paying a substitute tax of 19% in lieu of the standard corporate tax (IRPEG). The Euro 1,315 million reduction resulted from a Euro 712 million increase in taxes payable, attributable to the

In 2001, our tax rate applicable to ordinary income, net of the effects of the first-time consolidation of telecommunications companies and extraordinary items, was equal to approximately 47%, relatively unchanged as compared to 2000.

Net income increased by Euro 2,038 million, or 93.1%, from Euro 2,188 million in 2000 to Euro 4,226 million in 2001. This increase was primarily due to the increase of Euro 2,126 million in net extraordinary income that largely related to capital gains on divestments, including Elettrogen, and the decrease of Euro 1,000 million in income taxes. The increase also reflected the decrease of Euro 373 million in equity losses, and the increase of Euro 276 million in net losses attributed to third parties, each of which was primarily due to the first-time consolidation of our telecommunications companies. The positive effects of these factors were partially offset by the decrease of Euro 1,275 million in operating income and the increase of Euro 462 million in net financial expense, as explained in more detail above.

### *Operating revenues*

	<b><u>Year ended December 31,</u></b>			
	<b><u>1999</u></b>		<b><u>2000</u></b>	
	<b>(in millions)</b>			
Electricity sales				
Tariff revenues from sales on the regulated market.....	Euro	13,592	Euro	1,488
Sales to eligible customers.....		52		
Equalization Fund contributions for:				
Fuel costs .....				
Electricity imports, electricity purchases and other.....				
Total.....	<b><u>Euro</u></b>	<b><u>19,724</u></b>	<b><u>Euro</u></b>	<b><u>22,563</u></b>
Other revenues:				
Reimbursement of costs for customer connections,	Euro	581	Euro	632
inspections and repositioning services .....				
Other <sup>(1)</sup> .....		<u>655</u>		
Total other revenues .....		1,236		

Total operating revenues ..... Euro 20,960 Euro 25,109

(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 Euro 4,149 million, or 19.8%, compared to 1999, notwithstanding a decline of Euro 858 million, 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 Euro 2,104 million, or 15.5%. The effect of this decline on electricity sales was offset in part by an increase of Euro 1,246 million 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 Euro 3,698 million, 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 Euro 1,310 million, or 106.0%, which was primarily due to Euro 895 million 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 millions)			
Generation.....	Euro	9,598	Euro	11,530
Transmission .....		8,344		770
Distribution .....		14,547		13,903
Corporate.....		--		9,800
Other activities .....		1,964		3,289
Eliminations .....		(13,493)		(14,183)
Total	Euro	20,960	Euro	25,109

*Generation.* Operating revenues of our generation segment for 2000 increased by Euro 1,932 million, or 20.1%, as compared to 1999. The increase was principally attributable to significantly higher Equalization Fund contributions for thermal generation, which increased by Euro 2,101 million, 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 c/Euro 3 per kWh for production devoted to Non-Eligible Customers, which fee generated a total of Euro 452 million. The positive impact of these factors was only partially offset by a decrease in revenues from intra-Group sales of electricity of Euro 713 million 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 Euro 770 million, are not comparable with those for 1999, which totaled Euro 8,344 million.

*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 Euro 644 million, 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 59.2 cEuro /kWh to 57.2 cEuro /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 Euro 9,800 million, of which Euro 5,851 million 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 Euro 3,491 million).

*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 Euro 1,325 million, or 67.4%, in the operating revenues of our “other activities” was primarily attributable to intra-Group sales of fuels for Euro 1,375 million and to the above-mentioned new services, which generated aggregate revenues from third parties of approximately Euro 301 million. This increase was partially offset by lower revenues from intra-Group engineering and research activities (Euro 143 million and Euro 92 million, respectively) and by the transfer of telecommunications operations to WIND (Euro 127 million 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 millions)			
Operating expenses:				
Personnel.....	Euro	3,823	Euro	3,531
Fuel.....		3,258		
Purchased power.....		3,528		4,373
Other operating expenses:				

Services and rentals .....	1,301	2,453
Materials and supplies .....	788	849
Provisions .....	388	534
Other .....	284	392
Capitalized expenses .....	<u>(997)</u>	<u>(879)</u>
Total .....	<u>Euro 12.373</u>	<u>Euro 16.897</u>

Our consolidated operating expenses for 2000 increased by Euro 4,524 million, 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 Euro 1,152 million, 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 Euro 845 million, or 23.9%. The negative effects of these factors were offset in part by a reduction in personnel costs of Euro 292 million, 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 Euro 292 million, 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 Euro 2,386 million, 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 Euro 845 million, 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 Euro 1,152 million, or 88.6%, due mainly to Euro 894 million in electricity transmission fees payable under the new tariff framework and Euro 156 million 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 Euro 132 million in 2000.

Other costs increased by Euro 108 million, 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 Euro 118 million, 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 millions)			
Generation.....	Euro	5,040	Euro	7,766
Transmission .....		8,067		304
Distribution.....		10,739		10,804
Corporate.....	—			9,306
Other activities .....				2,838
Eliminations .....				(14,121)
Total.....	Euro	12,373	Euro	16,897

*Generation.* Operating expenses for the generation segment, which primarily consist of fuel costs, personnel and maintenance for our production plants, increased by Euro 2,726 million, or 54.1%, in 2000 as compared to 1999. The increase was principally attributable to a significant rise in fuel costs, which increased by Euro 2,386 million, 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 Euro 132 million, and Euro 117 million 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 Euro 304 million, are not comparable with those for 1999, which totaled Euro 8,067 million.

*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 Euro 65 million, or 0.6%, in 2000 as compared to 1999, primarily as a result of increased charges for the transmission of electricity, which rose by Euro 690 million, and increased costs for intra-Group services, primarily telecommunications services provided by WIND, which increased by approximately Euro 207 million. The negative impact of these factors on operating expenses was largely offset by lower electricity acquisition costs, which decreased by Euro 742 million, reflecting both lower prices fixed by the Energy Authority and lower volumes. Personnel costs also decreased by Euro 110 million, or 5.8%.

*Corporate.* Operating expenses of the corporate segment totaled Euro 9,306 million in 2000, of which Euro 4,490 million represented costs for fuel purchased by the corporate segment and subsequently transferred to the generation segment at cost and Euro 4,308 million was attributable to electricity purchased from third parties within Italy and abroad. The remainder of the total comprised service, rent and other costs of Euro 291 million, personnel costs of Euro 116 million and changes in risk provisions and accruals of Euro 100 million.

*Other activities.* Operating expenses for our other activities segment increased by Euro 842 million, 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 Euro 1,466 million 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 Euro 621 million.

*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:

		<b>Year ended December 31,</b>	
		<b>1999</b>	<b>2000</b>
		<b>(in millions)</b>	
Generation.....	Euro	1,288	Euro 1,410
Transmission .....		221	229
Distribution.....		1,487	1,611
Corporate.....	—		7
Other activities .....		<u>207</u>	<u>202</u>
Total.....	<u>Euro</u>	<u>3,203</u>	<u>Euro 3,459</u>

Depreciation and amortization for 2000 increased by Euro 256 million, or 8.0%, as compared to 1999. This increase was principally attributable to an increase in amortization of Euro 102 million 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 Euro 22 million, while higher depreciation rates applied to technology assets resulted in an increase in depreciation charges of Euro 21 million. We will have to amortize the goodwill associated with our purchase of Infostrada 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 millions)			
Generation.....	Euro	3,270	Euro	2,354
Transmission .....		56		237
Distribution.....		2,321		1,488
Corporate.....	—			487
Other activities .....		(239)		249
Eliminations .....		(24)		(62)
Total.....	Euro	5,384	Euro	4,753

Operating income decreased by Euro 631 million, 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 Euro 916 million, or 28.0%, in 2000 as compared to 1999, principally as a result of the decline of Euro 713 million 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 Euro 132 million and the stranded costs accrual of Euro 117 million, 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 Euro 237 million, is not comparable with that for 1999, which totaled Euro 56 million.

*Distribution.* Operating income of our distribution segment decreased by Euro 833 million, 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 Euro 446 million, costs for intra-Group services rose by approximately Euro 207 million, the gross margin on electricity sold by the segment fell by approximately Euro 155 million because of the new tariff system and amortization and depreciation charges increased by Euro 124 million (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 Euro 110 million.

*Corporate.* Operating income of our corporate segment in 2000 was Euro 487 million, all of which was attributable to intra-Group transactions.

*Other activities.* Our other activities segment recorded operating income of Euro 249 million in 2000, as compared to an operating loss of Euro 239 million 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 Euro 46 million in 1999, to So.g.i.n. in November 1999.

### ***Financial expense***

Net financial expense increased by Euro 65 million, 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 Euro 458 million charge recorded in 2000 consists of our share of equity losses and goodwill amortization in WIND (Euro 420 million) and a writedown of the value of our interest in Echelon Corporation (Euro 35 million). The increase of Euro 231 million in the total charge as compared to 1999 primarily reflects, in addition to the Echelon writedown, an increase of Euro 175 million in our share of the losses at WIND, as well as Euro 19 million 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 Euro 190 million in 2000, as compared to net extraordinary expense of Euro 546 million in 1999.

Extraordinary income for 2000 principally consisted of:

- The collection of Euro 160 million 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 Euro 60 million 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 Euro 70 million.

This extraordinary income was offset by extraordinary expenses of Euro 102 million in incentives paid to new participants in the early retirement programs described below.

Extraordinary expenses for 1999 principally consisted of:

- A provision of Euro 409 million 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 Euro 93 million relating to below-market swap and swap option contracts to cover interest rate risk that were restructured during 1999.
- A write-down of Euro 89 million 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 Euro 52 million, 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 Euro 41 million 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 Euro 30 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 Euro 111 million 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 Euro 29 million relating to a court judgment in our favor, for which we recorded a receivable.

You should read note 25 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.

	<b>Year ended December 31,</b>			
	<b>1999</b>		<b>2000</b>	
	<b>(in millions)</b>			
Income taxes:				
Current and deferred taxes .....	Euro	1,973	Euro	1,797
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates .....		—		(148)
Deferred tax assets relating to prior years .....		(290)		—
<b>Total</b> .....	Euro	<u>1,683</u>	Euro	<u>1,649</u>

The total tax charge for 2000 was Euro 1,649 million, which was Euro 34 million or 2.0% lower than the charge for 1999. The principal reasons for this decrease were:

- the benefit for 2000 of Euro 148 million 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 Euro 191 million, 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 Euro 290 million 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, Euro 290 million 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 Euro 2,345 million in 1999 to Euro 2,188 million 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.

### **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 1.7% in 1999, 2.6% in 2000 and 2.7% in 2001. As a result, the real value of tariffs decreased over time.

### **U.S. GAAP Reconciliation**

We have prepared our consolidated financial statements 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”), which differ in certain respects from U.S. GAAP. The principal differences between Italian GAAP and U.S. GAAP, as applied to our consolidated financial statements, relate to the following:

- Depreciation on fixed assets;
- Capitalized interest and the related depreciation;
- Unbilled revenues;
- Pension and employee termination accounting;
- Other post retirement benefits accounting;

- Social Security withholdings and contribution;
- Derivatives;
- Advertising and start-up costs;
- Software;
- Reorganization under common control;
- Goodwill on Infostrada acquisition;
- Restructuring reserves;
- Italian pension system obligation;
- Accounting for income taxes;
- Investment in equity securities; and
- Extraordinary income and expenses.

You should read note 25 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 26 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 Euro 2,295 million in 1999, Euro 1,841 million in 2000 and Euro 3,688 million in 2001, as compared to consolidated net income under Italian GAAP of Euro 2,345 million in 1999, Euro 2,188 million in 2000 and Euro 4,226 million in 2001. Our shareholders' equity under U.S. GAAP was Euro 16,989 million at December 31, 1999, Euro 17,438 million at December 31, 2000 and Euro 19,467 million at December 31, 2001, as compared with shareholders' equity under Italian GAAP of Euro 17,577 at December 31, 1999, Euro 18,312 at December 31, 2000 and Euro 20,966 million at December 31, 2001.

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 Euro 577 million in 2000 and Euro 523 million in 2001. You should read "Item 6. Directors, Senior Management and Employees—Employees—Employee benefits" for a discussion of these contributions.

Operating income by segment for 1999 under U.S. GAAP approximates Euro 3,046 million from generation, Euro 46 million from transmission and Euro 2,198 million from distribution, as compared to 1999 operating income under Italian GAAP of Euro 3,271 million from generation, Euro 57 million from transmission and Euro 2,320 million from distribution.

Operating income by segment for 2000 under U.S. GAAP approximates Euro 2,248 million from generation, Euro 213 million from transmission and Euro 912 million from distribution, as compared to 2000 operating income under Italian GAAP of Euro 2,354 million from generation, Euro 237 million from transmission and Euro 1,488 million from distribution.

Operating income by segment for 2001 under U.S. GAAP approximates Euro 2,812 million from generation, Euro 212 million from transmission and Euro 1,200 million from

distribution, as compared to 2001 operating income under Italian GAAP of 2,509 million from generation, Euro 229 million from transmission and Euro 1,493 million from distribution. Our telecommunications segment reported an operating loss of approximately Euro 1,293 million under U.S. GAAP in 2001, as compared to an operating loss of Euro 1,237 million under Italian GAAP.

#### *New U.S. GAAP Accounting Standards*

In addition to the critical accounting policies discussed above under “—Overview—Critical Accounting Policies”, our future U.S. GAAP results will be affected by a number of new accounting standards that have been recently issued.

*Business combinations.* SFAS No. 141, issued in July 2001, requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method; use of the pooling-of-interests method is no longer permitted. The adoption of SFAS No. 141, effective July 1, 2001, will result in our accounting for any future business combinations under the purchase method of accounting, but will not change the method of accounting used for prior business combinations.

*Goodwill and other intangible assets.* SFAS No. 142, also issued in July 2001, requires that goodwill and other intangible assets no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill under U.S. GAAP ceased upon adoption of the standard. At December 31, 2001, the amount of unamortized goodwill was Euro 8,102 million. Accumulated amortization was approximately Euro 470 million as of December 31, 2001. The provisions of SFAS No. 142 require adoption as of January 1, 2002 for calendar year entities. Had we applied SFAS No. 142 from January 1, 2001, we would have not recorded amortization of goodwill for Euro 442 million. We do not have indefinite life intangible assets.

We are currently studying the effects of the new standard, but cannot predict at this time if any amounts will be recognized as impairments of goodwill or other intangible assets with indefinite lives.

*Accounting for asset retirement obligations.* The provisions of SFAS No. 143, issued by the FASB in August 2001, require adoption as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. We are currently studying the effects of the new standard, but have yet to quantify the effects of adoption on our financial statements.

*Extinguishment of debt.* In April 22, 2002, the FASB issued SFAS No. 145 “Rescission of FASB Statements No’s 4, 44 and 64, Amendment of SFAS No. 13 and Technical Corrections”. The principal change is that gains or losses from extinguishments of debt will no longer be classified as extraordinary items as they were under SFAS No. 4. The provisions of

SFAS No 145 are effective for fiscal years beginning after May 15, 2002, although early application of the Statement related to the rescission of SFAS No. 4 is encouraged. We plan to adopt SFAS No. 145 beginning January 1, 2003. When adopted, prior extraordinary items to the extinguishment of debt will need to be reclassified.

*Accounting for the impairment or disposal of long-lived assets.* This new standard was issued by the FASB in October 2001, and supersedes SFAS No. 121. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30 for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity, and which components will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS No. 144, effective January 1, 2002, will result in our accounting for any future impairments or disposals of long-lived assets under the foregoing provisions, but will not change the accounting principles used in previous asset impairments or disposals.

## **Liquidity and Capital Resources**

### *Liquidity*

Our primary source of liquidity is cash generated from operations. Net cash provided by operating activities was Euro 6,164 million in 2001, as compared to Euro 4,900 million in 2000. The increase of 25.8% was primarily attributable to the receipt of contributions from the Equalization Fund related to previous years.

Cash used in investing activities was Euro 13,620 million in 2001, as compared to Euro 3,610 million in 2000. The increase of Euro 10,010 million, or 277.2%, was primarily attributable to expenditures for Euro 7,632 million related to our acquisition of Infostrada and an increase of Euro 2,139 million, or 82.9%, in investments in tangible and intangible assets, primarily relating to the continued development of our telecommunications segment. The increase in cash used in investing activities also reflected approximately Euro 480 million spent on acquisitions of gas distribution companies. These financial requirements were met primarily through cash generated by our operations totaling Euro 6,164 million, and a total of approximately Euro 4,900 million generated by divestments during the year, including the disposal of Elettrogen for Euro 2,687 million, the disposal of Valgen and a 49% interest in Deval for approximately Euro 800 million, the sale of certain municipal distribution networks for a total of approximately Euro 800 million, and the sale of real estate businesses for a total of approximately Euro 422 million.

At December 31, 2001, our outstanding long-term debt, including current maturities, increased to Euro 16,639 million from Euro 10,051 million at December 31, 2000, reflecting increased borrowing to meet our financial requirements in 2001. The increase of Euro 6,588

million, or 65.5%, was primarily due to new loans (for a total principal amount of Euro 8,384 million) including a total of Euro 3,763 million drawn down by WIND from two syndicated loans for up to a total of Euro 7,000 million, a placement of Euro 2,000 million in 5% fixed rate three-year bonds issued by Enel Investment Holding BV, a wholly owned finance subsidiary of Enel S.p.A., and three loans extended by the European Investment Bank to Enel Distribuzione, Enel Produzione and Terna amounting to a total of Euro 1,250 million. See “–Capital Resources.” The increase also reflected an increase of Euro 2,522 million as a result of changes in the scope of consolidation, of which Euro 2,317 million was attributable to WIND. Repayments during the year totaling Euro 4,318 million, primarily reflecting payments at maturity, reduced the amount of the overall increase in outstanding debt.

At December 31, 2001, our outstanding short-term debt increased to Euro 6,540 million from Euro 4,399 million at December 31, 2000. The increase of Euro 2,201 million, or 48.7%, was attributable to an increase of Euro 1,184 million in outstanding short-term debt, of which Euro 604 million reflected the issuance of new commercial paper. The increase also reflected an increase of Euro 1,017 million as a result of changes in the scope of consolidation, of which Euro 822 million was attributable to Infostrada.

#### *Capital resources*

At December 31, 2001, our net financial position, which consists of short-and long-term debt net of cash, marketable securities, and factoring financing, was Euro 21,930 million, comprising a net long-term financial position of Euro 16,639 million and a net short-term financial position of Euro 5,291 million. The increase of Euro 8,547 million, or 63.9%, as compared to Euro 13,383 million at December 31, 2000, reflected a Euro 4,636 million increase in our net outstanding long-term and short-term debt, and the effect of changes in the scope of consolidation, which accounted for a total of Euro 3,911 million, of which Euro 3,620 million was attributable to our telecommunications companies.

We maintain committed lines of credit for Euro 5,671 million (Euro 3,250 million of which were unused as of December 31, 2001) and uncommitted lines of credit and other short-term borrowing agreements with banks in Italy with maximum borrowing limits aggregating approximately Euro 3,696 million as of December 31, 2001 (Euro 871 million of which were unused as of that date). The weighted average interest rate on our short-term borrowings was approximately 3.65% as of December 31, 2001. We believe that our bank facilities, together with our portfolio of cash and cash equivalents, are sufficient to meet our present working capital needs.

At December 31, 2001, 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, including approximately Euro 161 million of long-term debt which relates to our operating subsidiaries in the U.S. At the same date, 11.3% of our long-term debt was guaranteed as to principal and interest by the Italian government. At December 31, 2001, 63.0% of our long-term debt bore interest at floating rates and 37.0% 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 43% 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 these contracts. Without giving effect to these arrangements, the weighted average interest rate on our outstanding long-term debt as of December 31, 2001 was approximately 4.9%, as compared to approximately 5.5% in 2000.

As part of our program to issue Euro 7,500 million in aggregate principal amount of medium-term notes, in May 2001, Enel Investment Holding BV, a wholly owned finance subsidiary of Enel S.p.A., issued Euro 2,000 million of 5 % fixed rate three-year bonds guaranteed by Enel S.p.A. in 2001. As part of the same program, Enel S.p.A. issued 11 series of Euro-denominated bonds with an aggregate principal amount of Euro 735 million and three Japanese Yen-denominated series of bonds with an aggregate principal amount equivalent to Euro 118 million during the year. The currency risk relating to the placement of these Japanese Yen-denominated bonds has been hedged through currency swaps entered into at the date of the issue.

In 2001, Enel Distribuzione, Terna and Enel Produzione entered into three 15-year loans with the European Investment Bank for Euro 500 million, Euro 250 million and Euro 500 million, respectively. The proceeds of these loans will finance the maintenance and updating of our low-voltage and high-voltage networks and combined cycle conversions at certain plants.

In 2001, WIND entered into a syndicated loan for a total amount of Euro 5,500 million to refinance Euro 3,700 million of its existing debt and pay for new investments in high-speed broadband technology, and another syndicated loan for a total amount of Euro 1,500 million to refinance debt previously incurred by Infostrada to finance its capital expenditures.

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, aiming at ensuring flexible and cost-effective financing for all companies of the Group.

Any possible reduction of the credit ratings on our commercial paper and notes programs would increase the cost of funding and potentially limit our access to these and other sources of financing.

#### *Future Liquidity and Capital Resources*

The Group has adopted formal policies and decision making processes aimed at optimizing the Group’s overall financial situation and its allocation of financial funds, cash management processes and financial risk management, as well as ensuring sustainable levels of indebtedness.

We expect that cash flow from operations and cash received from divestitures will continue to be the primary source of fund for our capital expenditures and working capital requirements in 2002. We believe that our cash flow and available liquid funds and credit lines will be sufficient to meet our anticipated cash needs.

We expect that the following transactions have had or are likely to have a significant effect on our liquidity and capital resources in 2002:

- the divestiture of Eurogen for total consideration of Euro 3,808 million, including Euro 3,057 million in cash (which may increase or decrease as a result of the application of the price adjustment mechanism provided by the agreement) and the assumption of Euro 751 million in debt.
- the divestiture of Interpower, which we expect to complete in the second half of 2002;
- the acquisition of 98.5% of the share capital of Camuzzi Gazometri S.p.A., which we completed on March 4, 2002 for total consideration of Euro 1,043 billion; and
- the acquisition of the entire share capital of Electra de Viesgo S.L., which we completed on January 8, 2002 for total consideration of Euro 2,000 million, including the assumption of Euro 130 million in debt.

We do not engage in the use of special purpose entities for off-balance sheet financing or any other purpose which results in assets or liabilities not being reflected in our consolidated financial statements.

For a discussion of related party transactions, see “Item 7. Major Shareholders’ and Related Party Transactions— Related Party Transactions”

### *Contractual Obligations*

The following tables set forth the contractual obligations of the Group with definitive payment terms which will require significant cash outlays in the future, as of December 31, 2001:

#### **Contractual Obligations**

(in millions of Euro)

	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>	<b>Total</b>
Long term debt (including current portion).....	567	4,928	2,075	9,069	16,639
Operating leases.....	220	454	475		1,149
Capital lease.....	7	5	3	3	18
Payable to Treasury Ministry for UMTS license...	36	72	72	145	325
Payable to INPS as extraordinary contribution following the elimination of the Electricity Sector Employee Pension Fund.....	651				651

#### **Contractual Obligations**

(in millions of Euro)

	<b>Less than 5 years</b>	<b>After 5 years</b>	<b>Total</b>
Commitments to suppliers of electricity.....	3,261	1,740	5,001
Commitments to suppliers of fuel.....	11,070	22,573	33,643
Payable to Ferrovie dello Stato for the lease of Telecommunications Network rights of way.....	172	132	304

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 Euro 11,070 million for the period from January 1, 2002 through December 31, 2006.

We also have unconditional purchase obligations for electric power. Our aggregate expenditures related to these commitments are expected to total Euro 3,261 million for the period from January 1, 2002 through December 31, 2006.

The following table sets forth other commercial commitments of the Group with definitive payment terms which will require significant cash outlays in the future, as of December 31, 2001:

<b>Other Commercial Commitments</b>	
	(in millions of euro)
Lines of credit	5,246
Medium term notes	2,853
Commercial paper	604
Guarantees	20
Total Commercial Commitments	8,723

We do not buy and sell derivative financial instruments for trading purposes and do not account for commodity contracts at fair value for Italian GAAP purposes. For a more detailed discussion of our commodities risk management, please refer to Item 11. Quantitative and Qualitative Disclosure About Market Risk— Price risk management and market risk information

## **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 and financial investments of approximately Euro 31,400 million in the period from 2002 to 2006. This estimate includes financial investments and capital expenditures made by Eurogen before it was divested as well as financial investments and capital expenditures made and scheduled to be made with regard to generating facilities now owned by Interpower (an aggregate total of approximately Euro 180 million).

Our planned capital expenditures include:

- Approximately Euro 5,500 million in our generation businesses, including those scheduled to be made by the Gencos, and by Enel Green Power and Viesgo;
- Approximately Euro 2,150 million in our transmission business;
- Approximately Euro 6,200 million in our telecommunication business;
- Approximately Euro 9,500 million in our distribution business, including approximately Euro 3,600 million for our remote metering project; and

- Approximately Euro 1,500 million in our information technology, real estate and research and development activities.

We have made significant capital investments in developing our telecommunications business and expect that we will continue to be required to do so. 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 Euro 361 million in respect of its license over the next ten years.

### **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. Bills and coins denominated in the former national currencies, or legacy currencies, remained legal tender until January 1, 2002. Beginning on January 1, 2002, Euro-denominated bills and coins were issued for cash transactions and following a transitional period that ended in February, the former national currencies were withdrawn.

We adopted the Euro as our reporting currency starting with the first quarter of 2001 and we have declared 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. Starting in July 2001, we issued bills in Euro with an indication of the corresponding amount in Lire, as required by the Energy Authority.

The introduction of the Euro required changes in our information technology and other systems in order to accommodate the use of the Euro in our corporate transactions and financial reporting. The total costs for such changes were approximately Euro 12 million, of which approximately Euro 10 million were recorded in 2001.

### **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 the 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 2005.

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.

On May 24, 2002, at our annual shareholders' meeting, our shareholders appointed members of the new board of directors whose term of office will expire in 2005. On June 26, 2002, our new board of directors established a new compensation committee and a new internal audit committee. Both committees are composed of three non-executive members. The current members of the compensation committee are Francesco Taranto, Mauro Miccio and Fernando Napolitano. The current members of the internal audit committee are Piero Gnudi, Franco Morganti and Gianfranco Tosi. 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. The internal audit committee has the authority to evaluate the activity and periodic reports of both internal and external auditors, and is primarily concerned with verifying the adequacy of Enel's internal controls system 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 of directors 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 members of the board of directors whose term expired on May 24, 2002 were: Enrico Testa, who was also the chairman of the board of directors, Francesco Tatò, who was also the chief executive officer, Carlo Angelici, Giuseppe Morchio, Franco Morganti, Carlo Tamburi and Francesco Taranto. The names of the seven members of our new board of directors, their current positions and the year when each was initially appointed as director are set forth in the following table.

<u>Name</u>	<u>Position</u>	<u>Year Initially Appointed</u>
Piero Gnudi	Chairman	2002
Paolo Scaroni	Director and Chief Executive Officer	2002
Mauro Miccio	Director	2002
Franco Morganti	Director	1999
Fernando Napolitano	Director	2002
Francesco Taranto	Director	2000
Gianfranco Tosi	Director	2002

We have briefly summarized below the principal business activities, experience and other principal directorships, if any, of each of our current directors.

*Piero Gnudi.* Piero Gnudi gained professional experience holding numerous positions on the board of directors and the board of statutory auditors of several major Italian companies, including STET S.p.A. (now Telecom Italia S.p.A.), Eni S.p.A. (the holding company of the Italian state-controlled energy group), Enichem S.p.A. (a subsidiary of Eni S.p.A.), and Credito Italiano S.p.A., a major Italian bank. He also served as economic advisor to the Industry Ministry. In 1994, Mr. Gnudi was appointed to the board of directors of IRI S.p.A., where he held a number of positions including that of supervisor of privatizations in 1997, and those of chairman of the board of directors and chief executive officer in 1999. He is currently chairman of the IRI Liquidation Committee and chairman of the board of directors of RAI Holding S.p.A., the holding company of the Italian state-owned broadcasting group. He is also a member of the CNEL (National Council of Economy and Labor). He has been Enel's chairman of the board of directors since May 2002.

*Paolo Scaroni.* Paolo Scaroni gained executive experience in Italy and abroad with the Saint Gobain Group, a major manufacturer of glass, ceramics and other products. From 1985 to 1996, he was vice-chairman of the board of directors and chief executive officer of Techint S.p.A., an engineering and construction company. In 1996, he joined the Pilkington group, one of the world's largest manufacturers of glass and glazing products, where he is currently vice-chairman of the board of directors of the parent company, after having held the position of chief executive officer from 1996 until May 2002. He is also a member of the board of directors of BAE Systems, as well as a member of the executive committee of Confindustria, the association of Italian industrialists, and of the board of the business school of Columbia University in New

York. Mr. Scaroni has been Enel's chief executive officer and *direttore generale* since May 2002.

*Mauro Miccio.* Mauro Miccio was a member of the board of directors of Ente Cinema S.p.A. (now Cinecittà Holding S.p.A.), an Italian film production and distribution company, from 1993 to 1996. Mr. Miccio was also a member of the board of directors of RAI S.p.A. from 1994 to 1996, chairman of FERPI (the Italian public relations federation) from 1994 to 2000 and chairman of the board of directors of Cinecittà Multiplex S.p.A. from 1997 to 2000. From 2000 to 2002, he was a member of the board of directors of ACEA S.p.A. (the municipal utility company of Rome). He has been a member of Enel's board of directors since May 2002.

*Franco Morganti.* Franco Morganti began his career at Olivetti S.p.A. and SGS S.p.A. (now ST Microelectronics 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 is currently the vice president of the International Institute of Communications in London. He has been a member of Enel's board of directors since December 1999, and he is also a member of WIND's board of directors.

*Fernando Napolitano.* Fernando Napolitano began his career working in the marketing department at Laben S.p.A. (an aerospace production company in the Finmeccanica Group), and subsequently worked at Procter & Gamble Italia S.p.A. In 1990, he joined the Italian office of Booz Allen Hamilton, a consulting company in the management and technology sector, where he was appointed partner and vice-president in 1998. He is currently responsible for Booz Allen Hamilton's Italian operations. Mr. Napolitano has been a member of the committee for surface digital television at the Ministry of Communications since 2001. He has been a member of Enel's Board of Directors since May 2002.

*Francesco Taranto.* Francesco Taranto began his career with a brokerage firm in Milan, and subsequently worked (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 becoming general manager of Interbancaria Gestioni S.p.A. (from 1984 to 1987). Having moved to the Prime Group (where he worked from 1987 to 2000), he was for a long time the managing director of the group's holding company. He is currently a member of the board of directors of Pioneer Global Asset Management S.p.A. (a company of the Unicredito Group) and Kedrios S.p.A., a company providing services to financial companies. He is also a member of the corporate governance committee for listed companies created by Borsa Italiana S.p.A., the Italian stock exchange. He has been a member of Enel's board of directors since October 2000.

*Gianfranco Tosi.* Gianfranco Tosi has been a professor of the Polytechnic Institute of Milan since 1982 and also taught in the University of Lecco in 1992. He extensively published on metallurgy, technology of metals and other related subjects. He has served as member of the board of directors of several Italian companies. He has also held several positions in associations

instituted within Confindustria. He was mayor of the city of Busto Arsizio from 1993 to 2002. He has been a member of Enel's board of directors since May 2002.

## 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 30, 2002:

<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.....	39	Strategies, Planning and Business Development	1997	1998
Alessandro Bufacchi.....	55	E-Business Development	2000	2000
Antonio Cardani.....	52	Audit	2000	2000
Salvatore Cardillo .....	52	Legal Affairs	2000	2000
Fulvio Conti.....	54	Chief Financial Officer	1999	1999
Angelo Delfino.....	62	Human Resources	1997	1999
Alfredo Macchiati.....	50	Regulatory Relations	2000	2002
Massimo Romano.....	43	Institutional Relations	1997	1997
Claudio Sartorelli.....	57	Corporate Affairs	1970	1996
Luciana Tarozzi.....	58	Accounting	1965	1997

Starting July 1, 2002, Gianluca Comin will be the head of the Press and Communications Department, following the resignation of Stefano Lucchini, who held the position from November 2001 to June 2002.

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. and Enel Produzione S.p.A.

*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.

*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.

*Fulvio Conti.* Fulvio Conti 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. and Interpower S.p.A.

*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.

*Alfredo Macchiati.* Alfredo Macchiati served as head of the research department at CONSOB, the Italian Securities Exchange Commission from 1994 to 2000 and as head of investigation department at the Italian Antitrust Authority before joining Enel at the end of 2000. He currently serves as head of the Regulatory Relations department.

*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.

*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.

*Gianluca Comin.* Gianluca Comin served as head of the public relations department and communications department at Montedison S.p.A. from 1999 to 2001. He also served as head of

the communications department at Telecom Italia S.p.A from September 2001 to June 2002. He worked as a journalist at “Il Gazzettino”, an Italian newspaper, from 1987 to 1999. He is also a member of the board of directors of Syremont S.p.A., a company in the Montedison Group. Starting in July 2002, he will be serving as head of the Company’s Press and Communications department.

## **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><b>Name</b></u>	<u><b>Position</b></u>	<u><b>Year Initially Appointed</b></u>
Bruno De Leo <sup>(1)</sup> .....	Chairman	1992
Gustavo Minervini.....	Auditor	1992
Franco Fontana.....	Auditor	2001
Roberto Ulissi.....	Alternate Auditor	2001
Francesco Bilotti.....	Alternate Auditor	1995

(1) Bruno De Leo is an employee of the Italian Ministry of Treasury and will retire from his position on July 8, 2002. As a result of his retirement, Mr. De Leo will not cease serving as chairman of our board of statutory auditors.

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. Arthur Andersen S.p.A. has been our external auditors with respect to the fiscal year 2001 and prior periods covered by the financial statements included in this annual report. Starting with the fiscal year 2002, our external auditors for both consolidated and non-consolidated accounts are KPMG 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 in our financial statements the following information regarding the compensation for 2001 of each of the directors and statutory auditors who served in such year. The following amounts include compensation paid to such persons by our subsidiaries.

<b>Name</b>	<b>Positions(s) Held</b>	<b>Base Compensation</b>	<b>Bonuses and Other Incentives</b>	<b>Other Compensation</b>
	<b>Fees (in Euro)</b>			
Enrico Testa	Chairman of the Board of Enel S.p.A., Conphoebus S.p.A., Elettroambiente S.p.A., Sfera S.p.A., Sei S.p.A., Dalmazia Trieste S.p.A., Director of WIND S.p.A.	421,403	129,114	22,867
Francesco Tatò	Chief Executive Officer and <i>direttore generale</i> of Enel S.p.A., 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., 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., Enel FTL S.p.A., Enel Capital S.p.A., Director of WIND S.p.A., and Elettroambiente S.p.A.	992,994	361,520(1)	5,599
Carlo Angelici	Director of Enel S.p.A.	61,975		14,667
Giuseppe Morchio	Director of Enel S.p.A.	54,228		11,913
Claudio Poggi (2)	Chairman of the Board of Enel Real Estate S.p.A., Director of Enel S.p.A., Enel Produzione S.p.A., Enel Green Power S.p.A., and WIND S.p.A.	17,245		1,785
Franco Morganti	Director of Enel S.p.A. and WIND S.p.A.	69,619		63,184
Carlo Tamburi	Director of Enel S.p.A. and WIND S.p.A.	72,921(3)		8,318
Francesco Taranto	Director of Enel S.p.A.	61,975		19,832
Bruno De Leo	Chairman of the Board of Statutory Auditors of Enel S.p.A.	51,646(4)		7,282
Franco Fontana	Statutory Auditor of Enel S.p.A.	30,844		4,132
Gustavo Minervini	Statutory Auditor of Enel S.p.A.	41,245		6,611
Oreste Piemontese	Statutory Auditor of Enel S.p.A.	10,401		2,479

- (1) In 2001, Francesco Tatò was granted a bonus of Euro 361,520 with respect to the achievement of certain results in 2000. In addition, on March 28, 2002 the board of directors granted Mr. Tatò, as Enel's chief executive officer, a bonus of Euro 650,736, with respect to the achievement of certain Group's results and EBITDA target in 2001.
- (2) Claudio Poggi was a director of Enel and the subsidiaries listed above until February 2001, when he passed away.
- (3) As required by a directive of the Department of Public Finance of the *Presidenza del Consiglio dei Ministri* (Presidency of the Council of Ministers), Euro 51,230 of the base compensation were paid to the Treasury Ministry.
- (4) As required by a directive of the Department of Public Finance of the *Presidenza del Consiglio dei Ministri* (Presidency of the Council of Ministers), such compensation was paid entirely to the Treasury Ministry.

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, 2001 was approximately Euro 5.6 million. The aggregate amount paid or accrued for pension, retirement or similar benefits for

the same directors, statutory auditors and executive officers for the year ended December 31, 2001 was approximately Euro 605,000.

In addition, Francesco Tatò, in his capacity as *direttore generale* until May 24, 2002, was granted:

- In 2001, 2,635,000 options to purchase the same number of our ordinary shares. Only 1,475,600 of these options vested, and will be exercisable in 2004 and 2005 at an exercise price of Euro 7.272.
- In 2002, 3,820,500 options to purchase the same number of our ordinary shares. If vested in accordance with the terms of our stock option plan, 30% of these options will be exercisable starting in 2003, an additional 30% will be exercisable in 2004, and the remaining 40% will be exercisable in 2005. The final date for the exercise of all such options is December 31, 2007. The exercise price of the options is Euro 6.426.

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 May 13, 2002:

<u>Name of Director or Statutory Auditor</u>	<u>Number of ordinary shares held as of May 13, 2002</u>
Franco Morganti.....	787
Bruno De Leo .....	525
Gustavo Minervini.....	262
All other directors.....	0
Total: .....	1,574

## EMPLOYEES

As of December 31, 2001, we had 72,661 employees, of whom 859 held managerial positions. The following table shows the breakdown of employees in each of our principal segments as of December 31, 2001:

<u>Division</u>	<u>Number of Employees</u>	<u>Percentage of Total Number of Employees</u>
Distribution (*).....	38,954	53.6%
Generation .....	14,953	20.6
Transmission.....	3,214	4.4
Holding Company .....	534	0.7
Telecommunications.....	8,428	11.6
Gas .....	675	0.9
Other areas .....	5,903	8.2
Total Enel Group.....	72,661	100

(\*) Including Enel Trade's employees

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 23.8%, from 95,464 at December 31, 1996 to 72,661 employees at December 31, 2001.

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:

	<b>Estimated number of potential retirees</b>
2002.....	Not less than 2,200
2003.....	Not less than 3,000
2004.....	Not less than 1,000
2005.....	Not less than 1,700
2006.....	Not less than 1,200

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. The table does not take into account the employees of our telecommunications segment during the period from 1996 to 2000, prior to our consolidation of WIND.

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Employees (other than managers) ...	94,050	87,912	84,096	77,768	71,958	71,802
Managers .....	<u>1,014</u>	<u>1,045</u>	<u>842</u>	<u>743</u>	<u>689</u>	<u>859</u>
Total.....	95,464	88,957	84,938	78,511	72,647	72,661

Most of our non-management employees in the electricity sector are members of labor unions. The principal labor unions are the National Federation of Energy Workers, to which 33.2% of our employees belong, the Italian Electrical Companies Federation, to which 29.5% 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.

In July 2001, we signed a collective bargaining agreement for employees in the electricity industry with the unions, *Gestore della Rete* and So.g.i.n. The new collective bargaining

agreement for all electric employees also applies 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 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 49% of our management in 2001. For top managers, the variable component of compensation accounts for approximately 29% 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 Euro 1,808 million. 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 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 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. Our initial public offering consisted of a total of 3,848,802,000 ordinary shares (corresponding to 1,924,401,000 ordinary shares after the one-for-two reverse stock split effective July 9, 2001) in the form of ordinary shares and ADSs (each representing ten ordinary shares, at the time of the offering, and five ordinary shares after the aforesaid one-for-two reverse stock split). Please refer to “Item 10. Additional Information—By-Laws” for a complete description of the one-for-two reverse stock split. The offering of our shares was the second-largest in history at the time and generated gross proceeds of approximately Euro 16.55 billion.

As of June 1, 2002, the Treasury Ministry owned 4,097,164,124 of our ordinary shares, or 67.57% of the total number of outstanding ordinary shares. As of June 1, 2002, 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 Treasury Ministry 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 shareholders meeting in May 2002, we believe that the Treasury had assigned a total of 83,020,129 bonus shares, corresponding to approximately 41,510,065 ordinary shares after the aforesaid one-for-two reverse stock split, 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 and statutory auditors 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 14, 2002, 6,063,075,189 ordinary shares were outstanding. As of the same date, there were 1,096,839 ADSs (equivalent to 5,484,195 ordinary shares) held by 3 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.

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. The rates earned are comparable to the tariffed rates charged to similar commercial organizations.

Under the new regulatory framework, we are required to enter into certain transactions with the *Gestore della Rete* (which is wholly owned by the Treasury Ministry, our majority shareholder). Price and fees we pay to or receive from the *Gestore della Rete* in connection with these transactions are determined by the Energy Authority. Our generation companies sell all the electricity produced under the CIP 6 regime to the *Gestore della Rete*. The revenues produced from these sales represented approximately 2% of total Group revenues in 2001. Terna earns revenue from a fee per kWh transported that distributors and suppliers pay to us through the *Gestore della Rete*. The revenues relating to these fees represented approximately 3% of total Group revenues in 2001. Our distribution companies purchase electricity from the *Gestore della Rete* and pay to the same fees for the use of the national transmission network. The expenses relating to these price and fees represented approximately 19% of total operating expenses in 2001.

We purchase fuel for our generation companies and gas for our distribution companies from Eni S.p.A., whose largest shareholder is the Treasury Ministry, which owns approximately 30% of Eni's shares. Total purchases from Eni accounted for approximately 10% of our total operating expenses in 2001. Total purchases from state-owned companies accounted for approximately 12% of our total operating expenses in 2001. See note 24 to our consolidated financial statements included herein.

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 Euro 52,000 per employee. Under this policy, we have granted loans up to such amount to certain of our executive officers, including senior management. See note 23 to our consolidated financial statements included herein.

## **Item 8. Financial Information**

### **CONSOLIDATED FINANCIAL STATEMENTS**

Please refer to "Item 18. Financial Statements" 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 Euro 1,054 million at December 31, 2001, of which Euro 369 million related to legal proceedings.

We have briefly summarized below the most significant proceedings. For a general discussion of legal proceedings, you should read note 23 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 approximately Euro 1,000 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 former 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 March 2002, the Tribunal of Rome, upon request of the public prosecutor, dismissed the action commenced in 1997 by the public prosecutor of Rome against some of the 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.

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. 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. Following the withdrawal of the petitions filed by several suppliers in 2001, the aggregate value of the claims currently pending against us is Euro 186 million.

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 of Puglia has also challenged the decree on the grounds that the Italian government violated EU rules on state aids and the protection of competition. The Italian government is a party to all these proceedings and has actively contested the claims. The Regional Authority of Puglia has brought a claim also before the Constitutional Court challenging the Italian government on this matter. Although these proceedings are still pending before the relevant authorities, in 2001 we decided to abandon our proposed acquisition of Acquedotto Pugliese.

In March 2001, we challenged before the Administrative Court of Lazio the decision of the Antitrust Authority to condition the authorization of our acquisition of Infostrada S.p.A. on our disposal of an additional 5,500 MW of generation capacity. This decision was set aside by the Administrative Court of Lazio, but the Antitrust Authority appealed to the Italian Council of State. On June 22, 2002, the Italian Council of State issued a decision reversing the ruling of the Administrative Court of Lazio and remanding the matter to the Antitrust Authority for further action. The Italian Council of State has not yet published the reasons underlying its opinion. However, based on the text of the opinion released to date, the Italian Council of State has upheld our position that the conditions imposed by the Antitrust Authority in connection with the approval of our acquisition of Infostrada (primarily the sale of a fourth Genco) were excessive, and that it will require the Antitrust Authority to adopt different conditions in its new ruling. We cannot predict when the Antitrust Authority will issue its new ruling, nor can we predict what conditions it may impose on our acquisition of Infostrada. You should read “Item 4. Information on the Company—Business—Telecommunications—The Acquisition of Infostrada”.

## 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. Dividends were declared and paid in Italian lire until July 8, 2001. On July 9, 2001, the re-denomination of our share capital into Euro and a one-for-two reverse stock split became effective, and since then dividends have been declared and paid in Euro. The following table shows the amount in Euro of our dividends per share payable in respect of each of the fiscal years indicated based on the 12,126,150,379 ordinary shares outstanding in each of the years from 1997 to 2000, and our dividends per share based on the 6,063,075,189 ordinary shares outstanding in 2001.

Prior to our initial public offering in November 1999, the Treasury Ministry was our sole shareholder.

	Year ended December 31,				
	1997	1998	1999	2000	2001
Dividends per ordinary share (in Euro).....	0.04	0.08	0.12	0.13	0.36
Dividends per ordinary share (in U.S. cents) (1).....	4.3	8.6	11.3	12.2	32.0

- (1) We have translated the historical dividend amounts into U.S. dollars using the noon buying rate for lire, with respect to the years 1997 and 1998, and for Euro, with respect to the years from 1999 to 2001, in effect on the respective payment dates. 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 Euro 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 (Euro 2,284 million) 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 (Euro 1,453 million), or Lit. 232 (Euro 0.12) per ordinary share having a par value of Lit. 1,000 (Euro 0.52) each, 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 from 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 (Euro 1,578 million), or Lit. 252 (Euro 0.13) per ordinary share having a par value of Lit. 1,000 (Euro 0.52) each, 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 from June 21, 2001 to holders of record as of June 18, 2001.

At our annual shareholders' meeting on May 24, 2002, the shareholders approved our board of directors' proposal to pay an aggregate dividend of approximately Euro 2,183 million, or Euro 0.36 per ordinary share having a par value of Euro 1 each, in respect of the fiscal year ended December 31, 2001. The amount of the aggregate dividend was equal to approximately 52% of our consolidated net income for the year and will be paid from June 27, 2002 to holders of record as of June 24, 2002.

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 2001 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.

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 January 8, 2002, we acquired 100% of the outstanding shares of Electra de Viesgo S.L. (Viesgo), a Spanish electricity generation and distribution company, from Endesa S.A. for a total consideration of Euro 2,000 million, including Euro 1,870 million in cash and the assumption of Euro 130 million in debt.

On March 4, 2002, we acquired 98.5% of the outstanding shares of Camuzzi Gazometri S.p.A. from Mill Hill Investments for aggregate consideration of Euro 1,043 billion.

On May 31, 2002, we sold 100% of the share capital of Eurogen to Edipower S.p.A., a consortium formed by Edison S.p.A., AEM S.p.A., AEM Torino S.p.A., Aar e Ticino SA di Eletticità (Atel), Unicredito Italiano S.p.A., Interbanca S.p.A. and Albojo Limited for total consideration of Euro 3,808 million, including Euro 3,057 million in cash (which may increase or decrease as a result of the application of the price adjustment mechanism provided by the agreement) and the assumption of Euro 751 million in debt.

### 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 5 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, adjusted to reflect the effect of the one-for-two reverse stock split, effective on July 9, 2001, on the ADSs. Please refer to “Item 10. Additional Information—By-Laws” for a complete description of the one-for-two reverse stock split.

		ADSs	
		High	Low
		(in dollars)	
<b>1999</b>			
	Fourth Quarter (starting Nov. 2).....	45.23	41.13
<b>2000</b>			
	First Quarter.....	46.00	38.63
	Second Quarter.....	45.38	41.13

	Third Quarter.....	44.19	36.75
	Fourth Quarter.....	39.70	35.05
<b>2001</b>			
	First Quarter.....	38.85	30.40
	Second Quarter.....	34.72	30.06
	Third Quarter.....	35.10	25.00
	Fourth Quarter.....	33.50	26.80
<b>2002</b>			
	First Quarter.....	29.09	27.41
	Second Quarter (through June 26).....	30.31	28.07
<b>December 2001 – May 2002</b>			
	December 2001.....	29.75	26.64
	January 2002.....	28.70	27.51
	February 2002.....	29.09	27.41
	March 2002.....	28.64	27.66
	April 2002.....	30.04	28.07
	May 2002.....	30.31	29.15

The following table sets forth, for the periods indicated, the reported high and low “official” sales prices for the ordinary shares on Telematico, adjusted to reflect the one-for-two reverse stock split, effective on July 9, 2001. Please refer to “Item 10. Additional Information—By-Laws” for a complete description of the one-for-two reverse stock split.

		<b>Ordinary Shares</b>	
		<b>High</b>	<b>Low</b>
		<b>(in Euro)</b>	
<b>1999</b>			
	Fourth Quarter (starting Nov. 2).....	8.593	7.840
<b>2000</b>			
	First Quarter.....	9.267	7.348
	Second Quarter.....	9.357	8.499
	Third Quarter.....	8.989	8.292
	Fourth Quarter.....	8.832	7.740
<b>2001</b>			
	First Quarter	8.051	6.525
	Second Quarter.....	7.603	6.954
	Third Quarter.....	7.811	5.650
	Fourth Quarter.....	6.873	6.079
<b>2002</b>			
	First Quarter	6.663	6.137
	Second Quarter (through June 26).....	6.765	5.607
<b>December 2001 – May 2002</b>			
	December 2001.....	6.430	6.079
	January 2002 .....	6.588	6.137
	February 2002.....	6.663	6.310
	March 2002 .....	6.543	6.302
	April 2002.....	6.765	6.494
	May 2002.....	6.664	6.380

Our ordinary shares are among the constituents of the MIB 30 Index, the primary Italian stock market index.

As of June 29, 2002, 6,063,075,189 ordinary shares were outstanding.

#### **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, or 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.

Under the Plan, in March 2000, our board of directors granted to 144 of our senior officers, including our former Chief Executive Officer, an aggregate of 19,690,000 options with respect to an equal number of ordinary shares. The number of options and the corresponding number of ordinary shares decreased to 9,845,000 as a result of the one-for-two reverse stock split effective July 9, 2001. 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 Euro 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, thus 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 with respect to the same number of ordinary shares, and corresponding to 5,513,200 ordinary shares after the aforesaid one-for-two reverse stock split) vested and will become exercisable in the periods provided for by the Plan. The strike price of the options granted in 2000, originally set at Euro 4.30, is now Euro 8.60 per share as a result of the one-for-two reverse stock split. Please refer to "By-laws" for a description of such one-for-two reverse stock split.

Under the Plan, in April 2001, our board of directors granted to 381 of our senior officers, including our former Chief Executive Officer, an aggregate of 68,548,100 options with respect of an equal number of ordinary shares. The number of options and the corresponding number of ordinary shares decreased to 34,274,050 as a result of the aforesaid one-for-two

reverse stock split. 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 with respect to the options granted in 2001, originally fixed at Euro 4.40, was set at Euro 8.80 as a result of the one-for-two reverse stock split. The strike price of options granted in 2001 originally fixed at Euro 3.636 per share, was set at Euro 7.272 as a result of the one-for-two reverse stock split. Since the specified Target Price was not met in 2001, all One Year Options and 30% of the Three Year Options did not vest, and thus 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 38,386,936 options with respect to the same number of ordinary shares, and corresponding to 19,193,468 ordinary shares after the one-for-two reverse stock split effective July 9, 2001) vested and will become exercisable in the periods provided for by the Plan.

As authorized by our shareholders in December 1999, having already taken into account the one-for-two reverse stock split effective July 9, 2001, on April 9, 2001, our board of directors resolved: (i) to increase our share capital by an amount not to exceed Euro 5,513,200 through the issuance of a maximum of 5,513,200 new ordinary shares with a par value of Euro 1 each, at a price per share of Euro 8.60, 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 Euro 34,274,050 through the issuance of a maximum of 34,274,050 new ordinary shares with a par value of Euro 1 each, at a price per share of Euro 7.272, 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 Euro 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 with a par value of Euro 1 each to be reserved for issuance upon exercise of options granted to the Group's senior management, which will be selected by our board of directors under the terms of executive stock option incentive plans to be approved by the board itself. At the same time, our shareholders revoked the authorization granted to our board of directors in December 1999, with regard to capital increases not yet resolved under such authorization.

In March 2002, our board of directors approved an executive stock option incentive plan for the year 2002, which we call the 2002 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).

If vested, 30% of the options may be exercised starting in 2003, another 30% starting in 2004, and the remaining 40% starting in 2005. No such options may be exercised after December 31, 2007. In each year, options may be exercised only within fifteen trading days following each of (i) the board of directors' approval of preliminary financial data for the preceding fiscal year on a consolidated basis, (ii) the shareholders' approval of the financial statements for the preceding fiscal year, and (iii) the board of directors' approval of the report

relating to the quarter ending September 30. Options vest if both the Earning Before Interest, Taxes, Depreciation and Amortization, or EBITDA, of the Group for the fiscal year 2002 exceeds the estimated EBITDA as indicated in the budget approved by the board of directors and the price of our shares on Telematico outperforms a specified reference index over the same period. If any of these conditions is not met, all the options expire. The strike price of the options is set by the board of directors and cannot be lower than the average reference price of our shares on Telematico during the month preceding the grant. 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 an option exercisable in 2005, calculated according to market value indications supplied by primary financial institutions.

Under the 2002 Plan, on March 28, 2002, our board of directors granted to approximately 380 of our senior officers, including our former Chief Executive Officer, an aggregate of 39,245,000 options with respect to an equal number of ordinary shares. The strike price of the options was set at Euro 6.426.

WIND has also launched a stock option plan in anticipation of a possible initial public offering of its shares. See note 27 to our consolidated financial statements.

## **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**

In May 2001, the Company's shareholders approved the re-denomination 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 issued and outstanding share capital of the Company consists of 6,063,075,189 ordinary shares, each with a par value of Euro 1. Before that date, the Company's share capital consisted of 12,126,150,379 ordinary shares, each with a par value of Lit. 1,000. In accordance with Italian law, in connection with the re-denomination, our share capital was rounded down by approximately Lit. 386 million (Euro 199,352), which we allocated 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 No. 137, is registered with the Italian Companies' Register held by the Chamber of Commerce of Rome at No. 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) 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 Euro 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 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 Euro 5,513,200 through the issue of a maximum number of 5,513,200 new ordinary shares with a par value of Euro 1 each, at a price of Euro 8.60, 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 Euro 34,274,050 through the issue of a maximum number of 34,274,050 new ordinary shares with a par value of Euro 1 each, at a price of Euro 7.272, 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.

Under the 2001 authorization, on March 28, 2002, the board of directors approved an executive stock option incentive plan for the year 2002 providing for the grant of options to certain of the Group's senior managers.

### **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 70 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.);
- Cassa Depositi e Prestiti (a state-owned entity mainly responsible for extending loans to public administration bodies);
- the Treasury Ministry; and
- the managers of foreign clearing, settlement and guarantee systems for financial instruments, provided that they are subject to supervision equivalent to that provided by Italian law.

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 state-owned entities, or other entities controlled by the state or other state-owned 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, 2001, 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 depositary, 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 depository, 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 and its subsidiaries. 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 Italian 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 May 2002, KPMG S.p.A., with registered offices at Via Vittor Pisani 25, Milan, was appointed as the Company's external auditor for a three-year period. With respect to the fiscal year 2001, Arthur Andersen S.p.A., with registered office at Via Campania 47, Rome, was our external auditor.

## **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 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 cannot be a director, statutory auditor, or employee of the Company, or of any of its subsidiaries or the 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.

Our shareholders authorized our board of directors to purchase a maximum of 155,000,000 ordinary shares of the Company (corresponding to approximately 2.55% of our share capital), for an aggregate consideration not exceeding Euro 1,000,000,000. The purchase may occur within eighteen months from the shareholders' resolution of May 24, 2002, and must be made on Telematico in a manner agreed upon with Borsa Italiana and using our distributable reserves. The purchase price shall be not lower than the par value of each share (Euro 1) and shall not exceed the reference market price of our shares recorded on the day preceding each purchase of share by more than 5%. The board of directors is also authorized to trade at any time all or part of the Company's own shares.

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.

Under Regulation No. 11971, a purchaser is exempted from the tender offer obligation when: (i) the purchaser’s equity interest, as a result of an acquisition, does not exceed the 30% threshold by more than 3% (provided that the purchaser commits (a) not to exercise the voting rights pertaining to any shares exceeding the 30% threshold and (b) to sell any shares exceeding the 30% threshold within 12 months from the date of purchase); (ii) another person (or several persons acting jointly) already owns more than 50% of the outstanding common stock, (iii) the 30% threshold is exceeded as a result of a capital increase in connection with a debt restructuring plan approved by CONSOB, (iv) the 30% threshold is exceeded as a result of transfers of shares among related persons, (v) the 30% threshold is exceeded as a result of the exercise of preemptive rights, (vi) the 30% threshold is exceeded through mergers or demergers having an industrial purpose, approved by the shareholders of the company whose shares would otherwise be the target of the tender offer. 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 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 Euro 10,329 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 Euro 10,329. 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 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. In order to comply with the documentation described under point (ii) above, eligible U.S. holders must obtain a certificate of residence 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, and produce it together with 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 Depositary. 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 Depositary. In all other cases, eligible U.S. holders must deliver the required documentation directly to the Depositary 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 Depositary. If the Depositary 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 Depositary. 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 and claiming benefits under the Income Tax Convention 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. No CGT will be imposed on the deposit or withdrawal of shares in return for ADSs.

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*

As of October 25, 2001, the Italian estate and gift tax has been abolished and consequently any transfer of ordinary shares or ADSs occurring by reason of death or gift as of that date is no longer subject to any Italian estate and gift tax.

However, should a gift of shares or ADSs for a value exceeding Euro 180,759.91 (the “Threshold”) occur and the relationship between the donor and the beneficiary not qualify for the exemption regime applicable to gifts made in favor of certain family members (*e.g.*, spouse, parents, children, grandchildren), a registration tax of Euro 129,11 would be due insofar as the gift agreement is either executed or registered in Italy. The materiality threshold is increased to Euro 516,456.91 in case the beneficiary is either underage (*i.e.*, younger than 18) or a person with a handicap recognized pursuant to applicable law.

#### *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 (which are generally priced in U.S. dollars). 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 the second half of 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; and
- 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.

Our exchange rate exposure for electricity imports is principally limited to imports denominated in Swiss francs. In 2001, approximately 44% 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 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, 2001, we were fully exposed to exchange rate risk on only Euro 454 million out of a total Euro 16,639 million 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.

Our commodity risk manager is responsible for analyzing, monitoring and controlling commodity risk management activities. 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 Euro by applying the exchange rate at end of the relevant period.

#### *Foreign exchange risk*

As explained above, our principal foreign exchange risk relates to fuel costs and electricity imports. At December 31, 2001, we also had foreign exchange risk exposure on Euro 454 million in debt denominated in non-Euro currencies, which represented less than 3% 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, 2001, we had outstanding forward exchange contracts and options used to hedge our several exchange risks with an aggregate notional amount of Euro

359.6 million. The fair value of these derivatives was positive by Euro 2.2 million 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 Euro 12 million (Euro 49.6 million in 2000). In addition, we had outstanding Euro/dollar forward exchange contracts used to hedge the foreign exchange risk arising from the time lag related to the fuel cost reimbursement mechanism with an aggregate notional amount of Euro 1,284.1 million at December 31, 2001. 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, 2001 amounted to Euro 16,639 million, of which Euro 10,489 million, or 63.0% of the total, bore interest at floating rates, principally based on Euribor, and Euro 6,150 million, or 37.0%, 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 enables 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, 2001, we had arranged interest rate derivatives with a notional amount of Euro 4,303 million, of which Euro 4,096 million were interest rate swaps and Euro 207 million were interest rate collars. The fair value of these derivatives was negative by Euro 136 million at such date (Euro 63 million in 2000). 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 43% of our total long-term debt.

Based on the results of our sensitivity analysis, at December 31, 2001, a 10% decrease in interest rates would have decreased the net negative fair value of our portfolio of financial instruments, including long term debt and interest rate derivatives, by Euro 91 million (Euro 151 million in 2000). 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, 2001 levels, our consolidated interest expense, including with respect to long term debt and interest rate derivatives, would increase by a total of approximately Euro 21 million per year (Euro 5

million in 2000). 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 2000, due to high volatility of 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. 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: Euro 589 million or 21,827 contracts;
- Swaps on petroleum indexes: Euro 42 million 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 Euro 121 million. This fair value fully offsets the positive fair value of the “cost-revenues” margin on physical purchases.

At December 31, 2001, the notional value of our open contracts was as follows:

- Futures: Euro 173 million or 7,932 contracts;
- Swaps on petroleum indexes: Euro 382 million or 3,656,772 tons; and
- Swaps on gas transmission fees: 1 billion cubic meters per year.

At December 31, 2001, the fair value of these contracts was positive by Euro 17.4 million. This fair value partially offsets the negative 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, 2001, a 10% increase in commodity price levels would have caused an increase in the value of our derivative contracts of Euro 40 million (Euro 11 million in 2000), while a 10% decrease would have caused a concomitant decrease of Euro 40 million (Euro 11 million in 2000).

We do not buy and sell derivative financial instruments for trading purposes and do not account for commodity contracts at fair value.

#### **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**

- 1.1 By-laws of the Company.
- 2.1 Deposit Agreement, as amended, 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 and the Post-effective Amendment No. 1 to Form F-6 effective as of July 9, 2001).

8.1 List of Subsidiaries.

99.1 Letter of Enel S.p.A regarding Arthur Andersen.

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, 2000 and 2001, 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, 2001. 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 did not audit the financial statements of certain subsidiaries, which statements reflect assets representing approximately 14% of total assets at December 31, 2001 and revenues representing approximately 10% of consolidated revenues for the period ended December 31, 2001. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, 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, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, 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 25 and 26 of the Notes to the Consolidated Financial Statements.

ARTHUR ANDERSEN S.p.A.

Rome, Italy,  
April 19, 2002

**ENEL S.p.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2000 AND 2001**

	<u>2000 (*)</u>	<u>2001</u>	<u>2001</u>
	(millions of euro)		(millions of U.S. dollars)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 2).....	491	587	522
Receivables (Note 4):			
Customers.....	3,481	6,799	6,052
Other.....	1,891	2,323	2,068
Equalization fund receivable (Note 5).....	1,812	58	52
Inventories (Notes 2 and 6).....	1,651	1,932	1,720
Accrued income and prepayments.....	130	203	180
	-----	-----	-----
	9,456	11,902	10,594
	-----	-----	-----
Utility plant (Notes 2 and 7).....	78,999	77,958	69,390
Accumulated depreciation (Notes 2 and 7).....	(45,281)	(45,210)	(40,241)
	-----	-----	-----
	33,718	32,748	29,149
	-----	-----	-----
Construction work in progress and advance payments.....	2,026	2,256	2,008
	-----	-----	-----
	35,744	35,004	31,157
	-----	-----	-----
Other non-current assets:			
Intangible assets (Notes 2 and 8).....	2,322	13,913	12,384
Investments (Notes 2 and 9) .....	1,116	632	562
Receivable from unconsolidated subsidiaries and affiliated companies (Note 10).....	471	7	6
Other (Note 11).....	524	1,732	1,542
	-----	-----	-----
	4,433	16,284	14,494
	-----	-----	-----
Total Assets .....	49,633	63,190	56,245
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

(\*) Amounts related to 2000 have been restated from Italian Lire to Euro using the fixed rate of Lire 1,936.27 = 1 euro as of January 1, 1999.

ENEL S.p.A. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2000 AND 2001

	<u>2000 (*)</u>	<u>2001</u>	<u>2001</u>
	(millions of euro)		(millions of U.S. dollars)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current maturities of long-term debt (Note 12).....	2,067	567	505
Short-term debt (Note 12) .....	4,339	6,540	5,821
Trade accounts payable .....	4,349	6,037	5,373
Taxes payable .....	586	1,096	976
Advances from customers .....	296	772	687
Accrued expenses and other current liabilities .....	3,984	4,152	3,696
	-----	-----	-----
	15,621	19,164	17,058
	-----	-----	-----
Long-term debt (Note 12) .....	7,984	16,072	14,305
	-----	-----	-----
Other non-current liabilities:			
Reserves for pensions and similar obligations (Note 13) .....	413	430	383
Reserves for employee termination indemnities .....	1,525	1,418	1,262
Deferred income taxes (Note 22) .....	3,789	2,581	2,297
Other (Notes 14 and 23) .....	1,989	2,559	2,278
	-----	-----	-----
	7,716	6,988	6,220
	-----	-----	-----
Shareholders' equity (Note 15):			
Share capital, euro 1 par value per share (6,063,075,189 shares authorized, issued and outstanding) .....	6,263	6,063	5,397
Legal reserve .....	1,253	1,453	1,293
Law 292/93 reserve .....	3,117	2,215	1,971
Other reserves .....	29	29	26
Retained earnings .....	5,462	6,980	6,213
Net income .....	2,188	4,226	3,762
	-----	-----	-----
	18,312	20,966	18,662
	-----	-----	-----
Total Liabilities and Shareholders' Equity ....	49,633	63,190	56,245
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

(\*) Amounts related to 2000 have been restated from Italian Lire to Euro using the fixed rate of Lire 1,936.27 = 1 euro as of January 1, 1999.

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	<u>1999 (*)</u>	<u>2000 (*)</u>	<u>2001</u>	<u>2001</u>
				(millions of U.S. dollars)
	(millions of euro)			
Operating revenues (Notes 2 and 16):				
Sales of electricity.....	13,644	12,786	20,877	18,583
Equalization Fund contributions.....	6,080	9,777	783	697
Telecommunications services.....	-	-	2,817	2,507
Other .....	1,236	2,546	4,304	3,831
	<u>20,960</u>	<u>25,109</u>	<u>28,781</u>	<u>25,618</u>
Operating expenses:				
Personnel (Note 17) .....	3,823	3,531	3,722	3,313
Fuel for thermal generation (Note 18) .....	3,258	5,644	5,249	4,672
Purchased power (Note 18) .....	3,528	4,373	3,649	3,248
Depreciation and amortization (Note 2 and 7) ...	3,203	3,459	4,459	3,969
Services and rentals (Note 19) .....	1,300	2,453	5,633	5,014
Materials and supplies (Note 18) .....	788	848	2,349	2,091
Provisions.....	388	534	599	533
Other .....	284	392	577	513
Capitalized expenses (Note 2) .....	(997)	(878)	(934)	(835)
	<u>15,575</u>	<u>20,356</u>	<u>25,303</u>	<u>22,522</u>
Operating income .....	<u>5,385</u>	<u>4,753</u>	<u>3,478</u>	<u>3,096</u>
Financial income (expense) (Note 20):				
Financial income .....	184	150	207	184
Financial expense .....	(768)	(798)	(1,317)	(1,172)
	<u>(584)</u>	<u>(648)</u>	<u>(1,110)</u>	<u>(988)</u>
Equity losses.....	(227)	(458)	(85)	(76)
Extraordinary income (expense) (Notes 2 and 21).	(547)	192	2,318	2,063
Income before income taxes .....	<u>4,027</u>	<u>3,839</u>	<u>4,601</u>	<u>4,095</u>
Income taxes (Notes 2 and 22) .....	<u>1,683</u>	<u>1,649</u>	<u>649</u>	<u>577</u>
Income before minority interests.....	<u>2,344</u>	<u>2,190</u>	<u>3,952</u>	<u>3,518</u>
Minority interests.....	<u>1</u>	<u>(2)</u>	<u>274</u>	<u>244</u>
Net Income .....	<u>2,345</u>	<u>2,188</u>	<u>4,226</u>	<u>3,762</u>

The accompanying notes are an integral part of these consolidated financial statements.

(\*) Amounts related to 1999 and 2000 have been restated from Italian Lire to Euro using the fixed rate of Lire 1,936.27 = 1 euro as of January 1, 1999.

ENEL S.p.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	<u>Share Capital</u>	<u>Legal Reserve</u>	<u>Law 292/93 Reserve</u>	<u>Other Reserves</u> (millions of euro)	<u>Retained Earnings</u>	<u>Net income</u>	<u>Total</u>
<b>Balance at January 1, 1999 (*)</b>	<b>6,263</b>	<b>130</b>	<b>5,478</b>	<b>1,022</b>	<b>3,424</b>	<b>2,214</b>	<b>18,531</b>
Allocation of 1998 net income							
to reserves .....	-	53	-	-	1,146	(1,199)	-
Transfer to reserves.....	-	1,070	(1,070)	-	-	-	-
Reserve distribution.....	-	-	(1,291)	(993)	-	-	(2,284)
Dividends .....	-	-	-	-	-	(1,015)	(1,015)
Net income for 1999 .....	-	-	-	-	-	2,345	2,345
<b>Balance at December 31, 1999 (*)</b>	<b>6,263</b>	<b>1,253</b>	<b>3,117</b>	<b>29</b>	<b>4,570</b>	<b>2,345</b>	<b>17,577</b>
Allocation of 1999 net income							
to reserves .....	-	-	-	-	892	(892)	-
Dividends .....	-	-	-	-	-	(1,453)	(1,453)
Net income for 2000 .....	-	-	-	-	-	2,188	2,188
<b>Balance at December 31, 2000 (*)</b>	<b>6,263</b>	<b>1,253</b>	<b>3,117</b>	<b>29</b>	<b>5,462</b>	<b>2,188</b>	<b>18,312</b>
Allocation of 2000 net income							
to reserves .....	-	-	-	-	1,963	(1,963)	-
Dividends paid (see Note 15).....	-	-	(902)	-	(451)	(225)	(1,578)
Translation of foreign companies' financial statements and other changes .....	-	-	-	-	6	-	6
Restatement of the capital stock in euro and reverse stock split.....	(200)	200	-	-	-	-	-
Net income for 2001 .....	-	-	-	-	-	4,226	4,226
<b>Balance at December 31, 2001</b>	<b>6,063</b>	<b>1,453</b>	<b>2,215</b>	<b>29</b>	<b>6,980</b>	<b>4,226</b>	<b>20,966</b>
(millions of U.S. dollars)							
<b>Balance at December 31, 2001</b>	<b>5,397</b>	<b>1,293</b>	<b>1,971</b>	<b>26</b>	<b>6,213</b>	<b>3,762</b>	<b>18,662</b>

The accompanying notes are an integral part of these consolidated financial statements.

(\*) Amounts related to 1999 and 2000 have been restated from Italian Lire to Euro using the fixed rate of Lire 1,936.27 = 1 euro as of January 1, 1999.

**ENEL S.p.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
	(millions of euro)			(millions of U.S. dollars)
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Net income .....	2,345	2,190	3,952	3,517
Depreciation and amortization .....	3,203	3,458	4,459	3,969
Write-downs (revaluations), net .....	415	458	774	689
Net changes in reserves for employee termination indemnities .....	144	116	(76)	(67)
Net changes in other reserves .....	51	(22)	(92)	(82)
Loss (gain) on disposal of assets, net .....	49	(70)	(3,017)	(2,685)
Interest income .....	(184)	(149)	(207)	(184)
Interest expense .....	768	798	1,317	1,172
Income taxes .....	1,683	1,649	649	577
(Increase) Decrease:				
- Inventories .....	(112)	(557)	(295)	(262)
- Accounts receivable .....	(697)	(964)	(1,684)	(1,499)
- Accrued income, prepayments and other .....	20	(31)	(13)	(11)
- Equalization fund receivables .....	395	(1,675)	1,679	1,494
- Trade accounts payables .....	969	1,237	356	317
- Accrued expenses and other current liabilities .....	43	144	80	71
Interest received .....	184	149	207	184
Interest paid .....	(951)	(826)	(1,269)	(1,130)
Income taxes paid .....	(1,347)	(1,005)	(656)	(584)
<b>Net cash provided by operating activities .....</b>	<b>6,978</b>	<b>4,900</b>	<b>6,164</b>	<b>5,486</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investments:				
- Capital expenditure .....	(2,919)	(2,417)	(4,083)	(3,634)
- Unconsolidated subsidiaries and intangibles .....	(50)	(1,331)	(1,182)	(1,052)
- Investments in consolidated subsidiaries, net of cash acquired .....	-	(437)	(8,301)	(7,389)
- Other changes in fixed assets .....	595	575	7	6
	<b>(2,374)</b>	<b>(3,610)</b>	<b>(13,559)</b>	<b>(12,069)</b>
Disposals:				
- Disposal of businesses .....	-	-	4,670	4,157
- Fixed assets .....	23	181	223	198
<b>Net cash used in investing activities .....</b>	<b>(2,351)</b>	<b>(3,429)</b>	<b>(8,666)</b>	<b>(7,714)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Increase in long-term debt .....	2,200	1,447	8,384	7,463
Repayment of long-term debt .....	(5,277)	(2,554)	(4,318)	(3,844)
Change in short-term debt .....	1,550	2,357	570	507
	<b>(1,527)</b>	<b>1,250</b>	<b>4,636</b>	<b>4,126</b>
Dividends paid .....	(3,299)	(1,453)	(1,578)	(1,405)
FPE contribution and other pension obligation .....	(745)	(1,313)	(651)	(579)
Minority capital contribution and other minor .....	-	6	191	170
<b>Net cash (used) provided in financing activities .....</b>	<b>(5,571)</b>	<b>(1,510)</b>	<b>2,598</b>	<b>2,312</b>
<b>NET CASH FLOW FOR THE YEAR .....</b>	<b>(944)</b>	<b>(39)</b>	<b>96</b>	<b>85</b>
<b>CASH BALANCE AT BEGINNING OF THE YEAR .....</b>	<b>1,474</b>	<b>530</b>	<b>491</b>	<b>437</b>
<b>CASH BALANCE AT END OF THE YEAR .....</b>	<b>530</b>	<b>491</b>	<b>587</b>	<b>522</b>

The accompanying notes are an integral part of these consolidated financial statements.

(\*) Amounts related to 1999 and 2000 have been restated from Italian Lire to Euro using the fixed rate of Lire 1,936.27 = 1 euro as of January 1, 1999.

## 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. ENEL Group, through WIND and Infostrada, also provides mobile and fixed telecommunications services. Gas distribution, fuel trading, engineering and contracting represent the other principal activities of the ENEL Group.

ENEL S.p.A. 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 (1,924,401,000 taking into account the reverse stock split made in 2001) 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, 2001, 67.57% of the share capital of the Parent Company is owned by the Treasury Ministry.

In July 2000, the Company, which owned a 51% interest in Wind Telecomunicazioni S.p.A. (“WIND”), acquired an additional interest in 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 owned the remaining interest. Additionally, a 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 euro 576 million, which is being amortized over 15 years (see Note 8). In 2000, the investment in WIND was accounted for under the equity method, due to the existence of control restrictions for the larger part of the year. In 2001, WIND was consolidated using the line-by-line method.

In March 2001, ENEL through its wholly owned subsidiary Enel Investment Holding BV, purchased 100% of the voting stock of Infostrada S.p.A. (fixed line telecommunications operator in Italy) for euro 7,382 million from Mannesmann Investment B.V. (a member of the Vodafone Airtouch group). In addition, the Company incurred in acquisition costs for euro 372 million related to derivatives taken out to hedge the preliminary purchase price (euro 250 million) and to payments made to the management of Infostrada for the “one time” bonus which, under the term of the acquisition agreement amended the pre-existing incentive and stock option plans (euro 122 million). The Agreement was fully executed and perfected by the transfer of 100% of the shares of Infostrada on March 29, 2001. The acquisition was treated as a purchase, with resulting goodwill, considering also the ancillary costs, in the amount of euro 7,631 million, which is amortized over 15 years (see Note 8.)

On July 31, 2001 Enel Investment Holding BV contributed its 100% interest in Infostrada S.p.A. to Wind against receipt of shares of Wind corresponding to 38.7% of the share capital of Wind, after the stock issuance, increasing ENEL's share to 73.42 %. For consolidation purposes, this transaction was treated as

reorganization under common control, and accordingly the assets and liabilities transferred were accounted for at their carrying amounts.

On May 2001, ENEL, through their wholly owned subsidiary Valgen and Valdis, sold 100% and 49% of the share of Geval and Deval, respectively, to Finaosta (a finance company owned by the Valle d'Aosta Region Authority) for euro 802 million in cash. Geval owned the business unit relating to generation of electricity in the Valle d'Aosta and Deval the activities related to sales and distribution of electricity in the same Italian region. The gain from the sales was euro 444 million, booked as extraordinary income in the consolidated financial statements as of December 31, 2001.

On September 20, 2001 the Company sold 100% of the share capital of Elettrogen to a consortium led by the Spanish Group Endesa. ENEL received euro 2,687million in cash. The gain from the disposal was euro 1,900 million and was recorded as extraordinary income in the consolidated financial statements as of December 31, 2001. Effective September 20, Elettrogen has been deconsolidated.

The Bersani Decree requires that 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 the Company to sell to them its distribution assets in that municipality at a price to be determined by agreement between the ENEL Group and that relevant local distribution company. Under this requirement, in March 2001 and in December 2001, the Company, through its wholly owned subsidiary ENEL Distribuzione, has signed agreements for the sale of its local distribution network with A.C.E.A., the utility company serving Rome and Formello for euro 568 million and A.E.M. Torino S.p.A., the one serving Turin for euro 248 million. The gains from the sales in aggregate amount to euro 391 million and were recorded as extraordinary income in the consolidated financial statements as of December 31, 2001.

During 2000, the Company began to consolidate Enel.si S.p.A., Enelpower S.p.A., Enelpower UK Ltd., Sfera S.p.A., 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).

During 2001, the Company began to consolidate several companies active in the distribution and sale of gas to regulated market. The companies acquired until June 2001 were merged into Enel Distribuzione Gas.

## (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.

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, 2000 and 2001 and on consolidated net income for each of the three years in the period ended December 31, 2001, are set forth in Notes 25 and 26.

The Company's consolidated financial statements are presented for the first time in euro. Prior years were recasted as if the euro had been used since the earliest period presented, by using the fixed exchange rate of Italian Lira 1,936.27 to euro 1, which was defined as of January 1, 1999.

The comparative consolidated financial statements reported in euro depict the same trend as would have been presented if the company had continued to present financial statement in Italian Lira.

The consolidated financial statements are presented in euro. The translations of the euro amounts into U.S. Dollars ("USD") at the rate of U.S. \$ 0.8901 to 1 euro are included solely for the convenience of the reader, using the noon buying rate in New York City for cable transfers in euro, as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2001. The convenience translations should not be construed as representations that the euro amounts have been, could have been, or could in the future be, converted into USD at this 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.

As further explained in Note 1, the consolidation perimeter changed significantly as compared to the prior year, due mainly to the consolidation of WIND, previously accounted for under the equity method, and the acquisition of Infostrada, done in March 31, 2001. Other significant transactions, which affect the comparability of the financial statements for the year compared with previous years, are summarized below:

- purchase of a number of companies active in the distribution and sale of gas to regulated market, of which the ones acquired until June 2001 were merged into subsidiary Enel Distribuzione Gas;
- sale, on September 19, 2001, of the entire capital stock of Elettrogen;
- sale, effective respectively from July 1 and December 31, 2001 of distribution and sale of electricity networks in the metropolitan areas of Rome and Turin;
- sale, on June 1, 2001, of the entire capital stock of Geval, a subsidiary in which all generation activities and plants located in the Valle d'Aosta of the Enel Group had been transferred.

### 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.

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.

Grants received to finance specific construction projects 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. 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
Telecommunications:	
Mobile equipments.....	5-6
Fixed lines appliances.....	8
Cables.....	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, including goodwill, 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. 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 also allowed under Italian Law (see Notes 8 and 13).

#### 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, 2001 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 expense their contributions to these plans when they are paid. Such amounts totaled euro 84 million, euro 83 million and euro 82 million for the years ended December 31, 1999, 2000 and 2001, respectively.

The Company grants, under existing contractual obligations, 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 euro 745 million.

#### Operating Revenues

The Authority for Electricity and Gas modified in 2001 the tariff structure including in the tariff paid to distribution companies the amounts for the reimbursement of fuel costs which, until 2000, were paid by the Equalization Fund. Starting January 1, 2001, revenues from the sale of electricity include therefore components previously recorded among contributions from electricity Equalization Fund. In order to retain comparability between revenues from the sales of the Electricity and related costs, otherwise altered by the introduction of the new tariff system, starting from January 1, 2001 revenues from the sale of electricity (which in 2000 were recorded when the customer was billed or the meter was read) are integrated with estimates of revenues from the supply of electricity provided after the last meter reading prior to year end.

Pricing is based on the tariff structure, applicable for the year, as established by law and the Electrical Energy and Gas Authority (the "Energy Authority").

Revenues for the telecommunications sector from traffic, interconnections and roaming are recorded according to the usage by customers and telephone operators calculated on an accrual basis. Such revenues include the amount relating to access to and usage of the Company's network by customers and other domestic and international telephone operators. Revenues from the sale of rechargeable telephone cards and recharging are recorded solely for the amount corresponding to prepaid traffic effectively used by customers during the year. Revenues from sale of mobile and fixed telephones and related accessories are recorded at the time of the transfer of ownership.

Revenues from other services and the sale of goods are recognized when the service is provided or the title of ownership of the goods is transferred.

### 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 Board, 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 euro 745 million, is included in the consolidated statements of cash flows from financing activities in the item "other", as well as the payment in 2000 and 2001 of the first two installments of the extraordinary contribution for the elimination of the Electricity Industry Employee Pension Fund and the early payment of retirement benefits.

### Vacation Pay

Vacation pay is provided in accordance with Italian law. The related liabilities were euro 89 million and euro 103 million as of December 31, 2000 and 2001, respectively, and are included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheets.

### 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 euro 258 million, 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 carry-forwards, 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 and safety, environmental protection, service quality, and use of energy resources are charged to operating expenses as incurred. Amounts charged to operating expenses were euro 145 million, euro 124 million, and euro 100 million for the years ended December 31, 1999, 2000 and 2001, respectively.

### Foreign Currency

Transactions denominated in currencies other than euro are translated to euro at the exchange rate in effect on the date of the transaction. At December 31, 2001, assets and liabilities denominated in currencies different from euro have been translated into euro 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, 1999, 2000 and 2001, there were no such unrealized net gains.

### 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 23).

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.

The economic effects of currency and commodity risk hedging contracts aimed at hedging risks deriving from the current tariff system are recorded in the Income Statement in line with those of transactions for which risks are being hedged. If the economic effect of the hedged transaction has not yet occurred, the corresponding economic effect relating to the hedging instruments is deferred.

Derivative contracts originally entered into as hedging contracts for which the underlying asset or liability is extinguished prior to expiration or is not specifically identifiable, are valued at the lower of cost or market value as of the balance sheet date (interest rate derivatives) or are marked to market (foreign exchange derivatives). The corresponding effect of the valuation is recorded as financial charges.

#### 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 are capitalized as part of the cost of the assets. 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

On April 1, 1999, Legislative Decree No. 79/1999 (the “Bersani Decree”), implementing the principles contained in the Electricity Directive issued in 1996 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 of electricity 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 regulated monopoly structure for power transmission, distribution and sales 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 the Borsa dell'Energia Elettrica, ("Pool Market") for electricity, in which producers, importers, wholesalers, distributors, the Gestore della Rete, 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;
- 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, ("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 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 noted above may not be met.

#### (4) RECEIVABLES

Receivables are stated at their net realizable value and relate primarily to amounts due for the supply of electricity, gas and services, and also include amounts to be billed for services rendered prior to year end. The following table shows a breakdown of receivables as of December 31, 2000 and 2001.

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Electricity, gas and services.....	3,699	5,902
Telecommunication services.....	-	1,177
Allowance for doubtful accounts:		
Ordinary provisions .....	(169)	(264)
Provision for overdue interest .....	(49)	(16)
	-----	-----
	3,481	6,799
Other .....	1,891	2,323
	-----	-----
	5,372	9,122
	=====	=====

The increase in receivables is mainly due to the consolidation of WIND and the new tariff structure introduced by the Authority for Electricity and Gas as discussed in the summary of significant accounting and reporting policies (Note 2).

Following the introduction of the new tariff rules receivables include the estimated amounts of electricity supplied after the last meter reading prior to year end amounting to about euro 960 million. The remaining increase is mainly due to the growth in volumes of electricity transported and sold on the free market as well as the increase of fuel trading activities and gas distribution and sales.

The other receivables mainly include advances to suppliers, factoring receivables, deferred tax assets and receivables from social security institutions. The increase is mainly due to the development in the factoring business.

(5) EQUALIZATION FUND RECEIVABLE

Up to December 31, 2000 the main purpose of the Cassa Conguaglio per il Settore Elettrico (the "Equalization Fund") was to ensure that the cost of fuel and electricity purchased by the electricity companies were generally transferred to customers as a tariff component. These incentives were collected from the customers by the utility companies and then remitted to the Equalization Fund, which in turn distributed these amounts in the form of Equalization Fund contributions to the electricity generating companies.

As discussed in note 2 the new tariff structure includes in the tariff paid to distribution companies the component aimed to cover the cost of fuel, which, until 2000, was paid out by the Electricity Equalization Fund to generation companies. Starting January 1, 2001, such component, which was previously recorded among contributions from the Electricity Equalization Fund is therefore now included in tariff revenues for the sale of electricity on the regulated market.

As of December 31, 2000 and 2001, net Equalization Fund receivables were as follows:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Equalization Fund receivable .....	3,422	417
Equalization Fund payable, related to amounts collected from customers .....	(1,610)	(359)
	-----	-----
	1,812	58
	=====	=====

The residual amount at December 31, 2001, is mainly related to the contribution that the producers still receive in 2001 through the Equalization Fund to ensure a gradual transition to the new tariff system.

(6) INVENTORIES

Inventories as of December 31, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Fuel .....	763	537
Materials, supplies and other stocks ....	344	318
Civil buildings held for disposal.....	323	304
Work in progress .....	131	707
Advances .....	90	66
	-----	-----
	1,651	1,932
	=====	=====

The decrease in inventories of fuel is primarily due to lower volumes in stock and the decline in average unit prices in the second half of 2001.

The increase in contract work in progress is primarily due to the development of engineering and contracting activities in the international market, carried out by Enelpower and its subsidiaries.

(7) UTILITY PLANT

Net utility plant as of December 31, 2000 and 2001 consisted of the following:

	2000 (millions of euro)	2001
<b><u>Utility plant, gross:</u></b>		
Generating Plant:		
Hydroelectric.....	9,213	8,299
Thermal.....	22,564	19,566
Geothermal and renewable sources.....	1,629	1,679
Transmission Line.....	6,072	6,303
Distribution Network.....	33,301	33,308
Telecommunication networks.....	-	3,105
Land and Buildings.....	3,623	3,069
Other.....	2,597	2,629
Construction in progress.....	2,026	2,256
Total	81,025	80,214
<b><u>Accumulated Depreciation:</u></b>		
Generating Plant:		
Hydroelectric.....	3,585	3,341
Thermal.....	12,219	10,848
Geothermal and renewable sources.....	798	892
Transmission Line.....	2,829	3,045
Distribution Network.....	23,357	23,914
Telecommunication networks.....	-	770
Land and Buildings.....	924	849
Other.....	1,569	1,551
Construction in progress.....	-	-
Total	45,281	45,210
<b><u>Utility plant, net:</u></b>		
Generating Plant:		
Hydroelectric.....	5,628	4,958
Thermal.....	10,345	8,718
Geothermal and renewable sources.....	831	787
Transmission Line.....	3,243	3,258
Distribution Network.....	9,944	9,394
Telecommunication networks.....	-	2,335
Land and Buildings.....	2,699	2,220
Other.....	1,028	1,078
Construction in progress.....	2,026	2,256
Total	35,744	35,004

As of December 31, 2001, plants include assets to be relinquished, primarily hydroelectric, with a net book value of approximately euro 2,700 million. 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 autonomy provinces of Trento and Bolzano the possibility to choose a different expiry date, that has been fixed in 2010.

The following reflects changes in utility plant (millions of euro):

	December 31, 1999				December 31, 2000				December 31, 2001
	<u>Net book value</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Reclass.retirem. and other mov.</u>	<u>Net book value</u>	<u>Addition</u>	<u>Depreciation</u>	<u>Reclass.retirem. and other mov.</u>	<u>Net book value</u>
Generating plant:									
Hydroelectric.....	5,688	49	(281)	172	5,628	136	(276)	(530)	4,958
Thermal.....	10,761	155	(945)	374	10,345	367	(913)	(1,081)	8,718
Geothermal and other renewables...	836	25	(100)	70	831	21	(101)	36	787
Transmission line.....	3,308	60	(215)	90	3,243	21	(224)	218	3,258
Distribution network.....	10,467	1,358	(1,507)	(374)	9,944	1,104	(1,423)	(231)	9,394
Telecommunication networks.....	---	---	---	---	---	949	(388)	1,774	2,335
Land and buildings.....	2,653	18	(98)	126	2,699	29	(83)	(425)	2,220
Other.....	712	155	(162)	323	1,028	145	(222)	127	1,078
Construction in progress.....	3,489	596	---	(2,059)	2,026	1,311	---	(1,081)	2,256
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total.....	37,914	2,416	(3,308)	(1,278)	35,744	4,083	(3,630)	(1,193)	35,004
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Reclassification, retirements and other movements include the effect of the change in scope of consolidation in 2001 for the following:

- the sale of Elettrogen and Valgen generating plants for a total amount of euro 2,003 million
- the consolidation of WIND and Infostrada for a total amount of approximately euro 1,930 million;
- the disposal of metropolitan electricity distribution networks for the cities of Rome and Turin with a book value of euro 461 million;
- the transfer of real estate businesses to affiliated companies for a total amount of euro 436 million; and
- the acquisition of gas distribution companies with an aggregate network and plant value amounting to euro 503 million.

The amount also includes write downs following the early disposal of analog meters currently in use, and their replacement with digital meters expected to be completed by 2004 (euro 443 million) as well as the write down of thermal plant equipments to be dismantled following the conversion to combined-cycle turbogas technology (euro 166 million).

#### (8) INTANGIBLE ASSETS

Intangible as of December 31, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Goodwill.....	165	8,102
Concessions, licenses, trademarks and similar rights.....	9	2,840
Extraordinary contribution for Electricity Industry Pension Fund.....	1,934	1,751
Patents and intellectual property rights.	13	458
Other.....	201	762
	-----	-----
	2,322	13,913
	=====	=====

The amortization for the year ended as of December 31, 2001, for intangible assets amounts to euro 815 million.

At December 31, 2001 goodwill includes euro 7,791 million related to the telecommunications segment, following the acquisition of Infostrada and the consolidation of WIND. Goodwill related to the purchase of Infostrada, net of amortization for the period, amounts to euro 7,249 million while the residual amount of the goodwill paid in July 2000 for the acquisition of a 5.63% share in WIND amounted to euro 519 million. Amortization is calculated over a period of 15 years, in line with international practice and the life of the concession.

Goodwill related to the telecommunication sector is deemed to be recoverable based upon growth expectations and benefits arising out of the business integration between WIND and Infostrada, as included in Wind integrated business plan for the period 2001-2010. Results achieved in 2001 in terms of growth and market share and the achievement of a positive gross operating margin are in line with the targets reflected in the business plan. Such targets include the achievement of a positive cash flow starting in 2004 and net income in 2004/2005. The recoverability of costs capitalized in connection with this transaction as well as the recoverability of the deferred tax assets associated with the tax loss carry forwards of such entities, are subject to the achievement of profitability in the future by the telecommunication business of the Company.

Goodwill amounting to euro 249 million, net of amortization, refers also to the acquisitions of EGI and Chi Energy, companies operating in the generation from renewable sources, made in 2001 and 2000 respectively (amortized over a period of 20 years) and gas distribution (amortized over a period of 10 years, in line with the average residual life of the concessions).

Concessions, licenses, etc. include costs incurred by WIND to participate in the auction for the awarding of a license for the installation and operation of third generation mobile telecommunications systems (UMTS – IMT 2000) as well as license registration costs, amounting to euro 2,447 million. The 15-year license was issued by the Authority for Telecommunications on January 10, 2001, effective January 1, 2002. Service is expected to start at the end of 2002 and consequently no amortization was recorded in 2001.

The balance also includes, approximately euro 351 million relating to costs incurred by Infostrada to acquire concessions for the use of international circuits and for the usage and passage rights provided for in the contract signed in 1998 with Ferrovie dello Stato (State Railways), regulating the use of the related fiber optic network. Amortization is calculated over the expected life of the respective concessions.

The extraordinary contribution for Electricity Industry Pension Fund relates 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 and second installments, ENEL's total contribution of euro 2,036 million is expensed on a straight line basis over a period of 20 years, as allowed also by the above mentioned Budget Law. Current liabilities include euro 651 million representing the above amount, net of the first two installments payment made to INPS.

Patents and intellectual property rights primarily relate to costs incurred by the telecommunications companies for the acquisition of proprietary and licensed software.

Other intangible assets mainly relate to leasehold improvements made by telecommunications companies on technical sites; costs incurred for the implementation of SAP, Electronic Meter project, Contact center; cost of advertising campaigns carried out to support new telecommunications services and trademarks; accessories costs on financing and software development costs.

The accumulated amortization as of December 31, 2001, for goodwill, concession license and extraordinary contribution for electricity industry pension fund, amounts to euro 460 million, euro 41 million and euro 199 million respectively. The amortization for the year ended as of December 31, 2001, for goodwill, concession license and extraordinary contribution for electricity industry pension fund, amounts to euro 460 million, euro 41 million and euro 199 million respectively.

(9) INVESTMENTS

Investments as of December 31, 2000 and 2001 are as follows:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Investments in unconsolidated subsidiaries..	780	10
Investments in affiliates .....	180	287
Investments in other companies .....	156	335
	----	----
	1,116	632
	====	====

The decrease in investments in unconsolidated subsidiaries is due to the consolidation of WIND, previously accounted under the equity method.

Investment in affiliates primarily include a 49% ownership in Immobiliare Foro Bonaparte (euro 127 million) following the contribution of real estate property and a 49% ownership in Leasys (euro 109 million) following the contribution of vehicles leasing and company fleet management activities.

Investment in other companies include 12.5% share of Electra de Viesgo, acquired on December 21, 2001 for an amount of euro 234 million and a 7.74% share 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 digital metering project. The book value at December 31, 2001 is euro 60 million showing a reduction in the value of the investment of euro 56 million as a result of the negative performance of Echelon's stock on NASDAQ, consistent with the 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

At December 31, 2000, receivables from unconsolidated subsidiaries included a loan amounting to euro 468 million extended to WIND, which was unconsolidated at that time.

(11) OTHER NON CURRENT ASSETS

At December 31, 2001 the increase in the item "other" among the "other non current assets" is mainly due to the advance payments for the acquisition of Camuzzi and Viesgo Group, for a total amount of euro 528 million and to the deferred tax assets of WIND and Infostrada recorded in 2001, amounting to euro 350 million. The total long term portion of the deferred tax assets amount to approximately euro 900 million of which euro 655 related to Wind and Infostrada. In particular, euro 174 million relates to losses that may be carried forward indefinitely while the remaining euro 481 million relate to losses that may be carried forward for five years. Based on management's estimates and assessments, the Company's business plan and the merger of Infostrada and WIND leads to foresee the achievement of taxable profit in the period in which the tax losses carried forward can be utilized, therefore a reasonable certainty that such deferred tax assets will be recovered exists. However, the recovery of such tax assets is subject to the achievement of the forecast made by the directors on the development of the company resulting from the merger of these entities and the earning of sufficient income in the future.

(12) DEBT

Long-Term Debt

The Company's consolidated long-term debt balances, including current maturities, as of December 31, 2000 and 2001, and the related maturity schedules are as follows:

Summary by Type of Debt Instrument	Maturity Range	Balance at 12/31/2000	Balance at 12/31/2001	Current Maturity 2002	Long-term Maturity					
					2003	2004	2005	2006	After	Total
					(millions of euro)					
Fixed - rate listed bonds.....	2004-2031	2,750	5,075	-	-	3,000	750	225	1,100	5,075
Floating - rate listed bonds.....	2006-2009	1,396	252	-	-	-	-	166	86	252
Fixed - rate bonds not listed.....	2005-2008	48	171	-	-	-	52	45	74	171
Floating - rate bonds not listed.....	2002-2021	1,564	1,625	25	21	21	21	21	1,516	1,600
Fixed - rate bond EU... Floating - rate bonds	2002-2010	318	263	53	53	38	39	37	43	210
EU.....	2003-2009	25	20	4	4	3	3	3	3	16
Fixed - rate bank loans Floating - rate bank	2005-2008	84	89	9	10	10	10	8	42	80
loans.....	2002-2006	2,273	5,853	244	884	620	278	54	3,773	5,609
Fixed - rate EU Loans.. Floating rate EU Loans	2002-2009	705	429	183	79	46	36	30	55	246
Other financings.....	2004-2006	783	2,324	49	49	56	92	172	1,906	2,275
	2004-2022	105	538	-	20	14	16	17	471	538
Total .....		10,051	16,639	567	1,120	3,808	1,297	778	9,069	16,072

Bonds include euro 1,428 million guaranteed by the Republic of Italy (euro 1,661 million at December 31, 2000).

The increase in long-term debt of euro 6,588 million is a result of principal repayments of euro 4,318 million, which were offset by new borrowings of euro 8,384 million and change in the consolidation area (euro 2,522 million of which euro 2,317 million related to Wind's debt at the end of 2000) during 2001.

In 2001, the medium-term notes program for a total of euro 3 billion launched by the Parent in November 2000 was revised. The new program, issued on May 2001, provides for the increase in the amount to euro 7,500 million and inclusion of Enel Investment Holding BV as an issuer (guaranteed by the Parent). As part of such program, Enel Investment Holding BV issued on May 23, 2001 euro 2,000 million of 5.0% fixed rate three-year bonds guaranteed by the Parent. In addition, under the same program, the Parent issued through private placements 14 bonds for a total amount of euro 735 million, of which 11 were euro-denominated (amounting to euro 617 million), and 3 denominated in Japanese Yen (amounting to euro 118 million). The currency risk relating to Japanese Yen loans has been fully hedged through currency swaps.

In 2001, the Company entered into three 15-year floating rates loans with the European Investment Bank, for a total consideration of euro 1,250 million. Such loans will contribute to the financing of investment projects for new construction, renovation and repowering of existing plants.

In 2001, the Company entered into two non recourse facility agreements with a total available amount of euro 7,000 million. Such financing, only partially drawn at year end 2001, is to be used for capital expenditure, in the telecommunication network, in addition to the repayment of two previous facility agreements obtained in 2000. These facilities are subject to certain financial covenants, mainly related to the level of net financial indebtedness and financial ratios, that influence the access to the facilities and the applicable cost of funding.

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, 2000 (millions of euro)</u>	<u>Average Interest rate</u>	<u>At December 31, 2001 (millions of euro)</u>
Euro.....	2002-2031	5.41%	9,734	4.99%	16,118
U.S. Dollar .....	2002-2011	9.01%	127	7.84%	177
British Pound .....	2002-2007	9.75%	21	9.74%	17
Swiss Franc .....	2002-2009	6.93%	77	6.95%	65
Denmark Krone .....	2002	10.55%	3	10.55%	1
Japanese Yen .....	2002-2010	5.57%	89	2.59%	183
Other currencies.....			-	8.43%	78
Non - EMU Currency ...		7.60%	317	4.26%	521
Total Long - Term Debt ..			10,051		16,639

At December 31, 2001, approximately 63% of the Company's long term debt was linked to floating rates (61% as of December 31, 2000). To reduce exposure to interest rate mix, the company entered into interest rate hedging transactions for a total nominal value of euro 4,303 million, of which euro 4,096 million in the form of interest rate swaps, and euro 207 million of interest rate collars. Considering the above mentioned hedging contracts, appropriately weighting the notional amount of the collars, the residual amount of debt still exposed to the risk of floating-rates was approximately 43% of the total long-term debt at December 31, 2001.

#### Short-term Debt

The Company maintains committed revolving lines of credit with maximum borrowings limits aggregating euro 5,671 million and uncommitted lines of credit and other short-term borrowing agreements with banks in Italy with maximum borrowing limits aggregating approximately euro 3,696 million at December 31, 2001. These agreements provide for interest charges based on prevailing market conditions. As of December 31, 2000 and 2001, the average interest rate on short-term borrowings was 4.67% and 3.65%, respectively. As of December 31, 2000 and 2001, euro 4,029 million and euro 5,906 billion, respectively, in borrowings from banks were outstanding. Short-term bank debt includes 18-month loans amounting to euro 500 million and the use of revolving credit lines amounting to euro 2,421 million. A total of euro 1,024 million of 18-month loans expired, together with euro 516 million of revolving credit lines while a total of euro 500 million of new 18-month loans was subscribed, together with euro 155 million of revolving credit lines.

Among the most significant short-term transactions carried out in 2001 is the renewal, for a reduced amount of euro 5 billion, of the euro 10 billion revolving credit line, concluded with a pool of banks in November 2000.

In a context of a financial policy aimed at diversifying sources of financing and at reducing the cost of funding, Enel Investment Holding BV issued a Commercial Paper Programme, guaranteed by the Parent, for a total amount of euro 1,500 million. At December 31, 2001 euro 604 million of commercial paper had been issued.

The increase in short-term debt (bank debt and Commercial Paper issued) is due to higher uses of short-term credit lines that allow more flexibility in the management of debt, giving to the Group a more adequate financial structure in view of the expected proceeds resulting from the disposals. Moreover, the short term debt allowed us to take advantage of the decreasing trend in interest rates.

(13) RESERVE FOR PENSIONS AND SIMILAR OBLIGATIONS

As of December 31, 2001 an amount of euro 417 million 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. The managers currently employed are covered by the FONDENEL Fund.

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.

The remaining reserve of euro 13 million 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.

(14) 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, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Litigation and contingent liabilities reserves ...	880	1,054
Reserve for early retirement.....	173	30
Reserve for stranded costs.....	117	-
Substitute tax due upon the freeing-up of accelerated depreciation reserves.....	-	392
Payable to Treasury for UMTS license.....	-	289
Payable to <i>Ferrovie dello Stato</i> for telecommunication network.....	-	284
Other .....	819	510
	<u>1,989</u>	<u>2,559</u>

The "Litigation and contingent liabilities reserves" include euro 369 million 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 Enel Group's internal and external legal advisors are reasonably estimable and which the Company believes the unfavorable outcome to be probable. An additional amount of euro 46 million has been accrued in 2001. 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. 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 euro 623 million (of which euro 388 million was accrued in 2001) and potential charges and losses in connection with the abandonment or change of plans relating to currently suspended investment projects for euro 62 million. Accruals made in the year include estimated future dismantling costs (euro 58 million) to be sustained in connection with the conversion of thermal plants to turbo gas combined cycle technology and future costs deriving from the integration plan between WIND and Infostrada, (euro 99 million) both recorded among extraordinary charges. The accruals also include an euro 60 million provision for environmental risks and euro 41 million relating to charges of various nature connected with the telecommunications sector.

In 2000, the Company recognized reserves aggregating euro 117 million related to its potential liability for so-called “stranded costs”. The individual companies of the Group made an estimate of their potential liability 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 Ministerial Decree dated April 17, 2001 and Authority Resolution no. 114/01 dated May 25, 2001, introduced significant changes in the method used to calculate stranded costs. Based on the new mechanism, stranded costs may be determined only at the end of the full period considered for the reimbursement (2000 – 2006) and not for each individual fiscal year, and as such the amounts to pay or to receive from the new mechanism will only be determined at the end of 2006. Based on its estimates, management believes that it will not have to pay any amounts related with the new mechanism. Based on the regulatory clarifications and changes done in 2001, mentioned above, and management assessment, the amount accrued as of December 31, 2000 has been reversed in the 2001 consolidated financial statements.

The Italian 2002 Budget Law has allowed the freeing-up from corporate tax (IRPEG) of the reserves cumulated in the statutory accounts following the calculation of accelerated depreciations for tax purposes, after the recognition of a 19% substitute tax. A total euro 712 million substitute tax payable was recorded at December 31, 2001, of which euro 392 million represents the portion falling due in 2003 and 2004.

In 2001 WIND bought a 15-years license for the installation and operation of third generation mobile telecommunications system (UMTS – IMT 2000) for a total consideration of euro 2,447 million, of which euro 289 million is due in the years from 2003 to 2010.

The euro 284 million payable to Ferrovie dello Stato is related to the usage and transmission rights of the fiber optic network.

“Other” items mainly include minority interests (euro 143 million), long-term trade and other payables (euro 231 million) and long-term tax payables (euro 107 million).

#### (15) SHAREHOLDERS' EQUITY

##### Share Capital

In accordance with the resolution of the Shareholders' Meeting held on May 25, 2001, the capital stock of the Group Parent Company was restated in euro (bringing the nominal value of the shares from lire 1,000 to euro 0.50 each). At the same time the shares were subject to a reverse split in a ratio of one share with nominal value 1 euro for every two shares of nominal value euro 0.50, effective July 9, 2001. Following such operations, the capital stock is now composed of 6,063,075,189 ordinary shares of nominal value euro 1 each. As a result of rounding, the capital stock was decreased from euro 6,263 million to euro 6,063 million, with the balance transferred to Legal reserve (euro 200 million).

At December 31, 2001, according to the Shareholders' Register and information available, there are no shareholders with an ownership interest in the Company greater than 2% of the capital stock of the Company other than the Italian Treasury (which holds 67.57% 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, euro 1,070 million were transferred to the legal reserve from the "Law 292/93 reserve" in order to bring the former in line with 20% of the Parent's share capital, as resolved by the Shareholders' Meeting held on September 3, 1999.

The "Law 292/93 reserve" 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 euro 2,361 million in 1999 following the distribution of euro 1,291 million and the transfer to the legal reserve of euro 1,070 million, as resolved by the sole shareholder of the Company at the Shareholders' Meeting held on September 3, 1999.

In 2001, this reserve decreased by euro 902 million following the distribution resolved by the Shareholders' Meeting held on May 25, 2001.

### 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 euro 5,800 million was available for dividends at December 31, 2001.

### Reconciliation of Parent's Statutory Net Income and Shareholder's Equity to Consolidated Net Income and Shareholders' Equity

In the Parent's statutory financial statements investments in subsidiaries are accounted for under the cost method, consequently they 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		
	1999	2000	2001	1999	2000	2001
			(millions of euro)			
Per Parent Statutory financial statements .....	1,576	226	3,578	12,577	11,350	13,350
Deferred taxes.....	(428)	-	-	-	-	-
Effects of consolidating the financial statements of the Subsidiary Companies.....	1,197	2,004	709	5,000	7,025	7,737
Elimination of intra-group gains and other.....	-	(42)	(61)	-	(63)	(121)
Per consolidated financial statements .....	<u>2,345</u>	<u>2,188</u>	<u>4,226</u>	<u>17,577</u>	<u>18,312</u>	<u>20,966</u>

Starting from 1999, the Company began to record deferred tax assets also in the statutory financial statements.

The elimination of intra-group gains relates mainly to the elimination of margins earned on captive generation and transmission plant construction activities.

(16) OPERATING REVENUES

Operating revenues for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Sales of electricity.....	13,644	12,786	20,877
Equalization Fund contributions .....	6,080	9,777	783
Telecommunications services.....	-	-	2,817
Other:			
- Connections, inspections and repositioning services.....	581	633	591
- Other operating revenues.....	655	1,914	3,713
	-----	-----	-----
Total other.....	1,236	2,546	4,304
	-----	-----	-----
	20,960	25,109	28,781
	=====	=====	=====

As discussed in Note 2 Revenues from sales of electricity were affected by new tariff structure established by the Authority. In particular in 2001, the Company, in order to retain comparability between revenues from the sale of electricity and related costs, otherwise altered by the introduction of the new tariff structure (which now includes the fuel component costs), recorded for the first time estimated revenues from the supply of electricity provided after the last meter reading prior to year end for an amount of euro 960 million. The amount of energy supplied within December 31, 2000 and billed in 2001, equal to euro 501 million (estimated according to the old tariff structure and therefore net of the fuel component costs), was recorded in 2001 among extraordinary income.

The amounts included in Equalization Fund contributions for the years ended December 31, 1999, 2000, and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Contributions for thermal generation to the non-eligible customers markets.....	3,266	5,367	-
Contributions for overseas net purchase of electricity.....	980	825	-
Contributions for domestic purchases, incentives for renewable energy sources and other minor.....	1,834	3,133	331
Contributions for power generation to the non eligible customers (Decree 205/99)...	-	452	452
	-----	-----	-----
	6,080	9,777	783
	=====	=====	=====

The reduction in Equalization Fund contributions is due primarily to the mentioned introduction of new tariff structure. As already discussed in Note 2, starting from 2001 revenues from sales of electricity include the amounts for the reimbursement of fuel costs which were previously paid by the Equalization Fund. As a result, the caption includes in 2001 only euro 452 million relating to the contribution of euro c 0.3 for each kWh produced for the Non-Eligible customers and euro 331 million mainly related to contributions on electricity generated by plants under the provisions of CIP Regulation 6/92 in previous years but recognized in 2001.

In 2001, contributions previously received for the purchase of electricity from third parties and those on electricity generated by plants under the provisions of CIP Regulation 6/92 were also eliminated. The first were replaced by the above mentioned introduction of a single tariff for the sale of electricity, and the second by a corresponding share in the sale price of such energy to the System Operator (*Gestore della Rete*).

Sales of Electricity and Equalization Fund contributions declined in 2001 by an aggregate of euro 903 million as compared to 2000 due to lower quantities sold following the opening-up of the market as well as lower tariffs for the regulated market.

Other operating revenues increased principally due to energy transmission fees (euro 234 million) relating to the use of the Transmission and Distribution network, the development of new business and the reversal of the reserve for stranded costs, amounting to euro 117 million (Note 14). The contribution of new businesses to the increase in operating revenues during 2001 is as follows:

- Fuel trading activities, euro 643 million;
- Distribution of natural gas, euro 359 million;
- Engineering and contracting, euro 420 million.

In 2001, sales in countries other than Italy amounted to euro 433 million, of which euro 328 million in the Middle East and euro 49 million in North America.

(17) PERSONNEL EXPENSES

Personnel expenses for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Wages and salaries .....	2,621	2,467	2,645
Social security contributions .....	802	691	726
Employee termination indemnities .....	239	217	218
Employee pension and similar obligations..	28	21	26
Other costs .....	133	135	107
	-----	-----	-----
	3,823	3,531	3,722
	=====	=====	=====

Personnel expenses increase by euro 191 million due to the combined effect of the change in the consolidation area, mainly affected by the telecommunications sector, and the reduction in personnel employed in the electricity sector.

(18) MATERIALS AND CONSUMABLES

Materials and energy for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Electricity purchased .....	3,528	4,373	3,649
Fuel consumption.....	3,258	5,644	5,249
	-----	-----	-----
Total fuel and energy .....	6,786	10,017	8,898
	-----	-----	-----
Materials purchased .....	770	1,094	837
Net change in inventory .....	18	(368)	507
	-----	-----	-----
Total materials .....	788	726	1,344
	-----	-----	-----
Gas for distribution and fuel for trading.....	-	122	1,005
	-----	-----	-----
	<u>7,574</u>	<u>10,865</u>	<u>11,247</u>

Electricity purchases decreased in 2001 despite the 2.8% increase in quantities purchased due to lower prices paid for electricity upon auctions of the System Operator (*Gestore della Rete*).

The decrease in the cost of thermal fuel reflects mainly lower thermal production.

The increase in cost of materials is due to the growth in the construction of power plants and transmission lines on behalf of third parties carried out by the engineering and construction segment and the consolidation of telecommunications activities.

Increased purchases of gas for distribution and fuel for trading are related to the development of these operations during 2001.

(19) SERVICES AND RENTALS

Services and rentals for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Electricity transmission fees.....	33	958	1,751
Maintenance and repairs .....	294	311	388
Services from WIND.....	99	295	-
Other services.....	610	657	2,879
	-----	-----	-----
Total Services .....	1,036	2,221	5,018
	-----	-----	-----
Rentals and Leases .....	264	232	615
	-----	-----	-----
	<u>1,300</u>	<u>2,453</u>	<u>5,633</u>

The cost of services and rentals increased by euro 3,180 million, due mainly to the change in the consolidation area and to higher national transmission network access fees for electricity generated by non-subsidized hydroelectric and geothermal plants ("Hydroelectric Surcharge"). The telecommunications sector, consolidated since 2001, accounts for an increase of euro 2,337 million, while the Hydroelectric Surcharge is increased by euro 638 million. Higher electricity amounts sold by Enel Trade on the free market resulted in a euro 155 million increase in electricity transmission costs.

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 approximately euro 90 million, euro 93 million and euro 211 million for the years ended December 31, 1999, 2000 and 2001, respectively. Future rental payments for the years 2002 through 2006 are estimated to be euro 220 million, euro 224 million, euro 230 million, euro 235 million and euro 240 million, respectively.

(20) FINANCIAL INCOME AND EXPENSES

Financial income for the years ended December 31, 1999, 2000 and 2001 was as follows:

	<u>1999</u>	<u>2000</u> (millions of euro)	<u>2001</u>
Interest on Equalization Fund receivable for nuclear-related charges .....	30	-	-
Interest on overdue receivables from customers ....	29	30	25
Interest on bank account .....	14	6	18
Interest on social security relief receivables .....	25	18	9
Other .....	86	96	155
	<u>184</u>	<u>150</u>	<u>207</u>

Financial expense for the years ended December 31, 1999, 2000 and 2001 was as follows:

	<u>1999</u>	<u>2000</u> (millions of euro)	<u>2001</u>
Interest and other charges on bonds .....	374	385	390
Interest and other charges on loans from banks and other financial institutions .....	224	198	413
Interest on short term debt from banks and other financial institutions .....	12	101	376
Other .....	158	114	138
	<u>768</u>	<u>798</u>	<u>1,317</u>

Net financial expense increased by euro 462 million over the previous year due mainly to the growth in average net financial debt, increasing from euro 12,466 million in 2000 to euro 20,743 million in 2001, mainly due to the consolidation of WIND and the acquisition of Infostrada. The impact of such factors was reduced by the restructuring of the debt portfolio in the year. Higher recourse to short-term financial debt with respect to the previous year, allowed higher flexibility in the management of financial debt and to take advantage of declining interest rates in 2001.

(21) EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income in 2001 included:

- gains on the sale of Elettrogen for euro 1,900 million;
- gains on the sales of generation plants located in the Valle d'Aosta (Geval) and of 49% of distribution activities in the Region (Deval), amounting to euro 444 million;
- gains on the disposal of assets primarily represented by the distribution networks in the municipalities of Rome and Turin, for euro 391 million;
- other gains on the disposal of assets amounting to euro 87 million;

- the recording of euro 501 million relating to electricity supplied at the end of 2000; such recognition was not possible according to the accounting and billing method previously used, as described in Note 16;
- settlement of contributions from the Electricity Equalization Fund relating to previous years, amounting to euro 40 million;
- other extraordinary gains amounting to euro 81 million.

These extraordinary income items were offset in part by:

- A write-down of euro 443 million to reflect the early disposal of analog meters currently in use, due to their replacement with electronic meters in the context of the “digital meter” project;
- A write-down of euro 224 million in the value of plant and accrual of expected costs for the disposal of fixed assets, as a result of the conversion of part of generating plants to combined-cycle turbogas technology;
- early retirement incentives to personnel for euro 190 million;
- charges connected with the business integration between WIND and Infostrada, amounting to euro 125 million;
- capital losses on disposal of assets and other extraordinary write-downs amounting to euro 76 million;
- other extraordinary losses amounting to euro 68 million.

The net extraordinary income net of tax effect amounts to euro 2,078 million.

Extraordinary income in 2000 primarily included:

- The collection of euro 160 million following the settlement of litigation on the reimbursement of certain previously incurred nuclear charges;
- The collection of euro 60 million 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 euro 70 million; and
- The retrieval of previous years’ taxes amounting to euro 57 million.

These extraordinary income items were offset in part by:

- Early retirements incentives offered to personnel for euro 102 million; and

- Accrued cost of euro 78 million 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 euro 409 million 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 was opened 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 euro 89 million 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 euro 93 million relating to below-market swap and swap-option contracts, to cover interest rate risk, that were restructured during 1999;
- A provision of euro 52 million 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 euro 41 million 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 euro 30 million for the future restructuring of Engineering and Research activities.

These extraordinary expenses were offset in part by:

- Income of euro 121 million related to a favorable judgment received in 1999 regarding prior year taxes and fees;
- Income of euro 29 million 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.

(22) INCOME TAXES

The provision for income taxes for the years ended December 31, 1999, 2000 and 2001, were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(millions of euro)		
Current .....	1,464	872	1,569
Deferred .....	219	925	(317)
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates.....	-	(148)	-
Release of deferred tax provision following the freeing-up of accelerated depreciation reserves.....	-	-	(603)
	<u>1,683</u>	<u>1,649</u>	<u>649</u>

The difference between the statutory and effective tax rate for the years ended December 31, 1999, 2000 and 2001 is due to the following factors:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Statutory tax rate .....	48.0%	48.0%	47.0%
Deferred tax assets from prior years.....	(7.4)	-	-
Adjustments made to deferred and prepaid taxes in accordance with new corporate tax rates.....	-	(6.0)	-
Release of deferred tax provision following the freeing-up of accelerated depreciation reserves...	-	-	(13.1)
Capital gains subject to 19% substitute tax.....	-	-	(19.8)
Permanent differences and other.....	1.2	1.0	-
Effective tax rate .....	<u>41.8%</u>	<u>43.0%</u>	<u>14.1%</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. Deferred tax assets have also been calculated on loss carry-forwards for tax purposes to the extent of the amount reasonably expected to be recovered in the future.

In 1999, deferred tax assets from prior years were recognized for euro 290 million. 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.

The balance of deferred taxes for 2001 include euro 350 million as deferred tax assets recognized on the losses reported for the year by WIND and Infostrada (in addition to the adjustment of the amounts accrued in past years' pursuant to newly introduced regulations) that may be carried forward for five years.

Deferred tax liabilities decreased primarily due to the reversal of deferred taxes accrued through December 31, 2000 on accelerated depreciation reserves for a total amount of euro 1,315 million. These have in fact been freed-up from corporate tax (IRPEG) after the recognition of 19% substitute tax, as allowed by 2002 Budget Law. The reduction in the deferred tax provision is correlated to the euro 712 million increase in tax payable, corresponding to the substitute tax due, and by an euro 603 million reduction in the amount of income taxes for the year, represented by the difference between deferred taxes accrued according to ordinary corporate tax rates and the substitute tax payable.

In 2001, current income taxes benefited of the reduction from 37% to 36% of Italian corporate tax (IRPEG) rate. Income tax charge for the year also benefit of the reversal of the difference between the deferred tax accrued at the ordinary corporate tax rate (36%) on the temporary differences related to the assets and businesses sold during the year subject to 19% substitute tax. Permanent difference for 2001 were offset by the benefit coming from tax credits on capital expenditure provided by the Tremonti-bis Law.

Significant components of the net deferred income tax liabilities are as follows as of December 31, 2000 and 2001:

	<u>2000</u>	<u>2001</u>
	(millions of euro)	
Deferred income tax liabilities: .....		
Accelerated depreciation .....	(3,460)	(2,067)
Other.....	(329)	(513)
Deferred income tax assets: .....		
Loss carry-forwards .....	-	655
Accruals and reserves .....	637	706
Net deferred income tax liabilities .....	<u>(3,152)</u>	<u>(1,219)</u>

At December 31, 2001, all tax years prior to 1996 have been settled, for direct taxes, with Italian tax authorities by the Company.

## (23) COMMITMENTS AND CONTINGENCIES

### Financial Derivatives

The Company in connection with the generation 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 currencies different from euro are converted into euro applying the exchange rate at year-end.

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 counterparties to derivative financial instruments, given the high credit standing of the counterparties, 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, 2000 and 2001 were as follows:

	2000	2001
	-----	-----
	Notional amount	
	(millions of euro)	
Interest rate swaps .....	3,598	4,096
Interest rate collars .....	723	207
	-----	-----
	4,321	4,303
	=====	=====

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. Moreover, the use of interest rate collars is deemed as appropriate under uncertainty periods, in order to benefit from possible decline in 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, 2000 and 2001, were as follows:

	2000	2001
	-----	-----
	Notional amount	
	(millions of euro)	
Forward exchange contracts .....	310	280
Options .....	75	80
	-----	-----
	385	360
	=====	=====

At December 31, 2001, the Company also had euro/dollar forward exchange contracts outstanding with an aggregate notional amount of euro 1,284 million, 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 currencies different from euro 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. The maturity of the Company's forward exchange contracts also never exceeds 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 to the individual generation companies and gas to the sale and distribution companies within the ENEL Group, to manage the Company's risk in the oil market and to develop fuel trading activities on the international markets. 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 and 2001, 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 costs 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 considered the most appropriate instruments to hedge the oil index used and to fix the price for fuel 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 a minor 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:

- Futures (IPE and NYMEX): euro 173 million or 7,932 contracts;
- Swaps on petroleum indexes: euro 429 million or 3,656,772 tons; and
- Swaps on gas transmission fee: 1 billion cubic meters per year.

At December 31, 2001, the fair value of the above open positions was positive by euro 17.4 million. This fair value partially offset the negative fair value of the "cost-revenues" margin on physical purchases.

#### 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 euro 11,070 million for the period from January 1, 2002 through December 31, 2006. The Company also has unconditional purchase obligations for electric power. The Company expects that its expenditures related to these commitments will approximate euro 3,261 million for the period from January 1, 2002 through December 31, 2006.

### 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 euro 31,400 (unaudited) million in the 2002-2006 period. This estimate includes financial investments and capital expenditures made by Eurogen before it was divested as well as financial investments and capital expenditures made and scheduled to be made with regard to generating facilities now owned by Interpower (an aggregate total of approximately euro 180 million).

### 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 companies in the same industry.

### 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.

## Regulatory

As of 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 produced or imported in Italy.

The Company will be required to sell not less than 15,000 MW of its gross installed generating (58,967 MW) 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.

On September 20, 2001, the Company sold 100% of the share capital of Elettrogen. Eurogen is to be disposed in May 2002, and the disposal of Interpower is in process and expected to be completed by the end of 2002.

The Bersani Decree seeks to promote 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 were considered approved unless the Industry Ministry objected within 60 days.

If a joint consolidation proposal is not submitted, or is not approved by the Industry Ministry, any local distribution company owned or partly owned by a municipality that served at least 20% of the electricity customers of a municipality may request the Company to sell to them its distribution assets in that municipality at a price to be determined by agreement between the ENEL Group and that relevant local distribution company. The Company estimates that the networks qualified for this procedure represent an aggregate total of approximately 5% of its customers.

To date, the Company sold its local distribution networks in Rome and Formello, Turin, Trieste, Cremona and Parma. In addition, substantially all of the other qualifying distribution companies in municipalities with co-existing networks, have made requests to purchase Company’s networks in these cities, including the municipally owned utilities in Milan and Verona.

## (24) RELATED PARTY TRANSACTIONS

As the entity primarily responsible for electricity generation, transmission and distribution in Italy, the Company provides services to many other state-owned entities. The rates earned are comparable to the tariff rates charged to similar commercial organizations.

Following the new regulations, the generation segment sells the power production from plants falling under the CIP 6/92 incentives to the System Operator (*Gestore della Rete* - wholly owned by the Treasury Ministry) while the transmission and distribution segments charge to the same entity transport fees both for the use of the National Transmission Network and the distribution network; these revenues represent approximately 5% of the total Group revenues in 2001. Prices of electricity and transport fees are determined by the Authority for Electricity and gas.

Under the same rules mentioned above, the distribution segment purchases electricity from the System Operator and is charged by the same of the fees for the use of the National Transmission System. The generation segment pays to the System Operator the additional access fee to the National Transmission System, due on the non incentivized hydroelectric and geothermal production. The amount of these transactions represents approximately 19% of total operating expenses in 2001. Prices and fees are determined by the Authority for Electricity and gas.

The Company purchases fuel for generation and gas for distribution from Eni, an Italian oil and gas company in which the Treasury Ministry has an ownership interest. Total purchases from Eni were approximately 10% of our total operating expenses in 2001 and 7% in 1999 and 2000. Total purchases from state-owned companies were approximately 10%, 10% and 12% of our total operating expenses for each of the three years ended December 31, 2001.

(25) 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. In 2000, the Company initiated a 4-year plan to replace certain assets with newer technology. As consequence, our estimate regarding their useful life for U.S. GAAP purposes was revised, although no such assessment was done for Italian GAAP purposes. Additionally, due to the mentioned above, differences in gains or losses on disposal of fixed assets 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, the prospective change in estimate regarding some fixed assets and to recognize gains or losses on asset disposals in accordance with U.S. GAAP. The effect on net income and basic earnings per share of the change in estimates of the useful life of certain assets amounts to euro 56 million and euro 0.01 per share, euro 74 million and euro 0.01 per share for the years ended December 31, 2000 and 2001, respectively.

Capitalized Interest and Related Depreciation

Under U.S. GAAP, interest should be capitalized as part of the cost of building 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, until December 31, 2000, the Company recorded revenues for electric services rendered when the electrical meter was read or when a customer was 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, were 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 through 2000 included adjustments to recognize the net impact on revenues for all services provided during each fiscal period, even if amounts were not billed at the period end. Following the new tariff rules, effective January 1, 2001, revenues under Italian GAAP reflect the estimated amounts of electricity supplied after the last meter reading prior to year end. Since at December 31, 2001 the difference between Italian GAAP and U.S. GAAP no longer exists, last year's adjustment has been reversed in the reconciliation presented below.

### 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.

SFAS No.87, "Employers' Accounting for Pensions", requires the provision for pension and other benefits to be recognized over the employees' employment period based on actuarially determined calculations. Additionally, in determining the employee termination liability for U.S. GAAP purposes, the Company has applied Approach 2 of Emerging Issues Task Force ("EITF") No. 88-1. This approach determines the actuarial present value of the vested benefit obligation the employee is entitled to at separation based on the employee's expected date of separation or retirement. The reconciliations below include adjustments to recognize the pension and other benefits in accordance with SFAS No. 87 and EITF No. 88-1.

Additionally, SFAS 87 requires the recognition of an additional minimum liability if the unfunded accumulated benefit obligation exceeds the accrued pension liability. If an additional minimum pension liability is recognized an equal amount is recognized as an intangible asset to the extent of unrecognized prior service cost. Any remaining excess is reported as other comprehensive income.

### 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")

The Company was required to pay approximately euro 65 million 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 designated against specific transactions. Under U.S. GAAP, derivatives that are not designated to hedge specific transactions are accounted for at market value with gains and losses being recognized currently in the statements of income.

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 price adjustment mechanism in the preliminary agreement. For Italian GAAP purposes, the settlement of the derivative instruments was considered a component of the purchase price of Infostrada, while U.S. GAAP does not allow hedge accounting for instruments intended to hedge the purchase price of a business combination. Therefore, the loss of euro 250 million from these instruments must be recorded as a gain or loss in the statements of income under U.S. GAAP rather than as a part of the purchase price.

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

As discussed in Note 2, in 1999 and 2000, the investment in WIND under Italian GAAP was accounted for under the equity method. Certain differences between Italian GAAP and U.S. GAAP existed in the accounts of WIND, primarily related to start-up and advertising costs, which are required to be expensed as incurred for U.S. GAAP purposes. The reconciliations below included for the years 1999 and 2000 the adjustments to recognize the Company's investment on WIND on a U.S. GAAP basis.

In 2001, WIND was consolidated using the line by line method and the related adjustments are reported in separate lines in the reconciliations below.

#### Advertising costs

Under Italian GAAP certain advertising costs may be capitalized if certain conditions are met and are then amortized over 5 years by the Company. Under U.S. GAAP advertising costs are expensed as incurred.

#### Start - up costs

Under Italian GAAP the Company capitalizes and amortized start-up costs over 5 years. Under US GAAP start-up costs are expensed as incurred.

#### Internal use software

For Italian GAAP software development costs may be capitalized if certain condition are met. For U.S. GAAP purposes software development costs can be divided into three categories: costs sustained in a preliminary phase (strategic decisions, systems and performance requirements, vendors selection, general conceptual framework, preliminary studies and planning), development and implementation costs, and training and on-going maintenance costs. Under U.S. GAAP costs related to the preliminary phase and costs related to training and on-going maintenance are expensed as incurred. In determining the amounts to be expensed to the income statement, management of the company made some estimates in terms of percentages of total costs capitalized for software projects.

Additionally, under Italian GAAP the Company accrued for costs expected to be incurred regarding the adaptation of software applications. Under US GAAP these costs are expensed as incurred.

#### Reorganizations under common control

Under U.S. GAAP acquisitions within a group of commonly controlled companies are accounted for as a reorganization of entities under common control in a similar manner to a 'pooling of interests'. Accordingly, assets and liabilities acquired are recorded at cost with no goodwill arising. U.S. GAAP requires the elimination of goodwill arising on consolidation of companies acquired under common control together with the related amortization.

#### FS (Italian State Railways) Right of Way

In the consolidated financial statements of the Company, under Italian GAAP the total consideration payable to the Italian State Railways for the rights of way over the FS rail network is recorded as an intangible asset and residual payments (13 installments over the period 1999 to 2011) are recorded at face value as liabilities; the intangible asset is amortized over its estimated useful life. For U.S. GAAP purposes, the intangible asset is adjusted to the present value of amounts to be paid for liabilities incurred. Amortization is charged on the adjusted cost of the intangible asset and the discount to present value of the gross amounts to be paid is charged to interest expense using the effective interest rate method over the repayment period.

#### Sundry differences regarding telecommunications activities

The item includes several minor differences regarding telecommunications activities between Italian GAAP and U.S. GAAP mainly related to customer acquisition costs and activation fees.

#### Infostrada acquisition

On March 29, 2001, the Company acquired from Vodafone Airtouch Plc 100% of the voting stock of Infostrada for euro 7.4 billion fully satisfied by cash. Infostrada is a telecommunication operator in Italy and Enel believes this acquisition will allow it to create the only significant rival to the Telecom Italia S.p.A. group, as well as one of the leading integrated telephone operators and a leading Internet operator. Under U.S. GAAP the acquisition of Infostrada was accounted for under the purchase method accounting, as prescribed by APB 16. Accordingly, the accompanying consolidated statement of operations does not include any revenues or expenses related to this acquisition prior to the consummation date.

The Company allocated the purchase price to the fair value of assets acquired and liabilities assumed and calculated the goodwill under U.S. GAAP. The table below shows a reconciliation of goodwill between Italian GAAP and U.S. GAAP.

(in million euros)	
Goodwill under Italian GAAP.....	7,631
Hedge cost (see footnote on derivatives).....	(250)
Infostrada U.S. GAAP adjustments.....	(165)
	-----
Goodwill under U.S. GAAP.....	7,546
	=====

The transaction resulted in goodwill of euro 7,546 million. The goodwill is been amortized over its expected useful life, which in the case of Infostrada is 15 years for both U.S. GAAP and Italian GAAP.

The following is the Company's Italian GAAP unaudited pro forma result assuming the acquisition occurred on January 1, 2000 and 2001:

	2000	2001
	(in million euros)	
Revenues.....	26,995	29,062
Profit before income taxes and minority interest.....	2,397	4,283
Net income .....	1,476	4,033
Basic and diluted earnings per share.....	0.24	0.66

This unaudited pro-forma data has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which would have actually resulted had the combinations been in effect on January 1, 2000 and 2001 or future results of operations.

#### Restructuring Reserve

The Italian GAAP financial statements reflect accruals for future anticipated restructuring charges. U.S. GAAP requires that certain conditions must be met before a restructuring accrual can be established. Since these conditions have not been met, 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 recognition as net pension cost of the required contribution for the period and recognition as a liability of any contributions due and unpaid, 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, with adjustments to earnings in order to reflect declines in value judged to be other than temporary. For U.S. GAAP purposes, the securities are accounted for in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", classified as available-for-sale and are carried at their fair market value with the unrealized holding gains and losses reflected under "Other comprehensive income" in shareholders' equity. Realized gains and losses, dividends and declines in value judged to be other than temporary are included in income. 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.

#### Classification differences

In addition to recognition and measurement differences there are a number of classification differences between Italian GAAP and U.S. GAAP. The main classification differences are:

#### Extraordinary Income and Expenses

As discussed in Note 2, items are recorded as extraordinary under Italian GAAP if they meet 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

At the end of July 2000 the Company acquired additional shares in WIND 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. In 2000, for U.S. GAAP purposes, WIND was consolidated starting August 1, 2000, while the investment was presented under the equity method for Italian GAAP purposes, due to the existence of control restrictions for the larger part of the year. Therefore, in the condensed consolidated financial statements for the year ended December 31, 2000

(see Note 26), WIND is presented under the equity method for the first seven months of the year and consolidated for the last five months.

### Cash Flow Statements

Under Italian GAAP the Company determines net cash flow from operating activities by the indirect method, starting from income before minority interests. Under U.S. GAAP net cash flow from operating activities is determined starting from net income.

Additionally, under Italian GAAP contributions to pension funds and other obligations are treated as cash flows from financing activities, while under U.S. GAAP they are classified as cash flows from operating activities.

Summarized cash flows determined in accordance with U.S. GAAP are presented below:

	<u>1999</u>	<u>2000</u> (millions of euro)	<u>2001</u>	<u>2001</u> (million of US dollars)
Net cash provided by operating activities.....	7,010	4,937	5,554	4,944
Net cash used in investing activities.....	(2,383)	(3,468)	(8,707)	(7,750)
Net cash (used) provided in financing activities.....	(5,571)	(1,509)	3,249	2,892

### Recently issued accounting standards

In July 2001, the FASB issued SFAS No. 141, "Business combinations", requiring that all business combinations initiated after June 30, 2001, be accounted for under the purchase method; use of the pooling-of-interests method is no longer permitted. The adoption of SFAS No. 141, effective July 1, 2001, will result in Company's accounting for any future business combinations under the purchase method of accounting, but will not change the method of accounting used in previous business combinations.

In July 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets", requiring that goodwill and other intangible assets no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill ceased upon adoption of the standard. At December 31, 2001, the amount of unamortized goodwill was euro 8,102 million. Accumulated amortization was approximately euro 470 million as of December 31, 2001. The provisions of SFAS No. 142 require adoption as of January 1, 2002 for calendar year entities. Had the Company applied SFAS No. 142 from January 1, 2001, the Company would have not recorded amortization of goodwill for euro 442 million. The Company does not have indefinite life intangible assets. The Company is currently studying the effects of the new standard, but cannot predict at this time if any amounts will be recognized as impairments of goodwill or other intangible assets.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", effective as of January 1, 2003. The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is currently studying the effects of the new standard, but has yet to quantify the effects of adoption on its financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the impairment or disposal of long-lived assets, and superseded SFAS No. 121. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30 for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS

No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity, and which components will be eliminated from the ongoing operations of the entity in a disposal transaction. Following the adoption of SFAS No. 144, effective January 1, 2002, the Company will account for any future impairments or disposals of long-lived assets under the foregoing provisions, but will not change the accounting principles used in previous asset impairments or disposals.

In April 2002, the FASB issued SFAS 145 "Rescission of FASB Statements No.4,44 and 64, Amendment of FASB Statement No.13 and Technical Corrections." The principal change is that gains or losses from extinguishment of debt which are classified as extraordinary items by SFAS 4 will no longer be classified as such. The provisions of SFAS 145 are effective for fiscal years beginning after May 15,2002, although early application of the Statement related to the rescission of SFAS 4 is encouraged. The Company plans to adopt SFAS 145 for its fiscal year ending December 31,2003. When adopted, prior extraordinary items related to the extinguishment of debt will need to be reclassified.

(26) **RECONCILIATION BETWEEN NET INCOME AND SHAREHOLDERS' EQUITY DETERMINED UNDER ITALIAN GAAP AND U.S. GAAP**

The following table summarizes the significant adjustments to consolidated net income for the years ended December 31, 1999, 2000 and 2001 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	1999	2000	2001	2001
	(millions of euro (a))			(millions of U.S. dollars (a))
Net Income as reported in the consolidated statements of income	2,345	2,188	4,226	3,762
Items increasing (decreasing) reported net income:				
Fixed assets and related depreciation	208	370	570	507
Capitalized interest and related depreciation (b)	(38)	(33)	(90)	(80)
Unbilled revenues	93	(60)	(501)	(446)
Pension and employee termination accounting	(54)	(111)	117	104
Other postretirement benefits accounting	(24)	(19)	(23)	(20)
Social security withholdings and contribution	22	-	-	-
Derivatives	27	(83)	(179)	(159)
Effect of U.S. GAAP adjustments on WIND	(28)	1	-	-
Advertising costs	-	-	23	20
Start-up costs	-	-	14	13
Internal use of software	-	-	(5)	(4)
Reorganization under common control	-	-	2	2
FS (Italian State Railways) Right of Way	-	-	(4)	(4)
Sundry differences regarding telecommunication activity	-	-	7	6
Goodwill on Infortra acquisition	-	-	5	4
Restructuring reserve	30	(17)	(11)	(10)
Italian pension system obligation	-	(577)	(523)	(466)
Investment in equity securities	-	35	(35)	(31)
Deferred taxes	(187)	-	(49)	(44)
Tax effect of reconciling items	(99)	147	151	134
Impact of reconciling items on minority interest	-	-	(4)	(3)
Net income in accordance with U.S. GAAP	2,295	1,841	3,691	3,285
Cumulative effect from implementation of SFAS 133, net of taxes	-	-	(3)	(3)
Net income in accordance with U.S. GAAP	2,295	1,841	3,688	3,282
Basic and diluted earnings per share in accordance with U.S. GAAP (c)	0.38	0.30	0.61	0.54

(a) Except per-share data which is in Euro and U.S. dollars

(b) Includes related depreciation of euro 70 million, euro 71 million, euro 72 million and U.S. \$64 million, respectively.

(c) The approximate per share amounts have been calculated in accordance with SFAS No. 128, "Earnings Per Share". See Note 27 for additional information on earnings per share. For purposes of these calculations the weighted average number of shares, taking into account the reverse stock split, was 6,063,075,189 shares as of December 31, 1999, 2000 and 2001, respectively.

The following table summarizes the significant adjustments to consolidated shareholders' equity as of December 31, 2000 and 2001 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

	2000	2001	2001
	(millions of euro)		(millions of U.S. dollars)
Shareholders' equity as reported in the consolidated Balance Sheet.....	18,312	20,966	18,662
Items increasing (decreasing) reported shareholders' equity:			
Fixed assets and related depreciation (a).....	(1,342)	(772)	(687)
Capitalized interest and related depreciation (b).....	1,475	1,385	1,233
Unbilled revenues.....	501	-	-
Pension and employee termination accounting.....	27	(18)	(16)
Other postretirement benefits accounting.....	(1,055)	(1,078)	(960)
Derivatives.....	(86)	157	140
Effect of U.S. GAAP adjustments on WIND.....	(28)	-	-
Advertising costs.....	-	(80)	(72)
Start-up costs.....	-	(19)	(17)
Internal use of software.....	-	(34)	(30)
Reorganization under common control.....	-	(12)	(11)
FS (Italian State Railways) Right of Way.....	-	(14)	(12)
Sundry differences regarding telecommunication activity.....	-	(3)	(3)
Goodwill on Infostrada acquisition.....	-	(79)	(70)
Restructuring reserve.....	13	2	1
Italian pension system obligation.....	(577)	(1,100)	(979)
Investment in equity securities.....	(65)	-	-
Deferred taxes.....	(106)	(155)	(138)
Tax effect of reconciling items.....	369	469	417
Impact of reconciling items on minority interest.....	-	11	10
	-----	-----	-----
Shareholders' equity in accordance with U.S. GAAP.....	17,438	19,626	17,468
Cumulative effect from implementation of SFAS 133, net of taxes.....	-	(159)	(141)
	-----	-----	-----
Shareholders' equity in accordance with U.S. GAAP.....	17,438	19,467	17,327
	=====	=====	=====

(a) Includes related accumulated depreciation of euro 12,453 million, euro 11,281 million, and U.S. \$10,072 million, respectively.

(b) Includes related accumulated depreciation of euro 414 million, euro 544 million and U.S. \$486 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 for 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, to the Company's financial position and results of operations.

2. Consolidation of insignificant subsidiaries – Under Italian GAAP insignificant subsidiaries are not consolidated. U.S. GAAP requires the consolidation of all majority owned subsidiaries without considering the materiality. The mentioned subsidiaries amounted for:

	As of December 31,	
	2000	2001
Revenues.....	0,0001%	0,001%
Net income.....	(0,001%)	(0,014%)
Total assets.....	0,001%	0,020%
Net equity.....	0,002%	0,052%

The condensed consolidated balance sheets as of December 31, 2000 and 2001 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	2001	2001
	(millions of euro)		(millions of U.S. dollars)
<b>Assets</b>			
Current Assets.....	10,512	11,706	10,420
Fixed Assets, net.....	37,403	36,035	32,075
Other non-current assets.....	6,620	16,058	14,293
	54,535	63,799	56,788
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities.....	16,809	19,367	17,239
Long-term debt.....	10,301	16,072	14,306
Other non-current liabilities.....	9,837	8,761	7,798
Total liabilities.....	36,947	44,200	39,343
Minority interest.....	150	132	118
Shareholders' equity.....	17,438	19,467	17,327
	54,535	63,799	56,788

The condensed consolidated statements of income for the years ended December 31, 1999, 2000 and 2001 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**

	<u>1999</u>	<u>2000</u> (millions of euro)	<u>2001</u>	<u>2001</u> (millions of U.S. dollars)
Total operating revenues.....	21,053	26,432	28,781	25,618
Total operating expenses.....	<u>15,951</u>	<u>22,367</u>	<u>25,140</u>	<u>22,377</u>
Operating income (a).....	5,102	4,065	3,641	3,241
Financial income (expense).....	(526)	(716)	(1,252)	(1,115)
Other non-operating income.....	<u>(348)</u>	<u>(224)</u>	<u>1,576</u>	<u>1,403</u>
Income before income taxes.....	4,228	3,125	3,965	3,529
Income taxes.....	<u>1,933</u>	<u>1,420</u>	<u>547</u>	<u>487</u>
Income before minority interest.....	2,295	1,705	3,418	3,042
Minority interest (loss).....	<u>-</u>	<u>(136)</u>	<u>(270)</u>	<u>(240)</u>
Net income.....	<u><u>2,295</u></u>	<u><u>1,841</u></u>	<u><u>3,688</u></u>	<u><u>3,282</u></u>

The condensed consolidated statements of changes in shareholders' equity for the years ended December 31, 2000 and 2001 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 Comprehensive Income	Total
	(millions of euro)			
Balance as of December 31, 1999.....	6,263	11,119	(394)	16,988
Net income.....	-	1,841	-	1,841
Unrealized loss on equity securities.....	-	-	(65)	(65)
Minimum pension liabilities .....	-	-	127	127
Dividends.....	-	(1,453)	-	(1,453)
Balance as of December 31, 2000.....	6,263	11,507	(332)	17,438
Restatement of the share capital in euro and reverse stock split.....	(200)	200	-	-
Cumulative effect from implementation of SFAS 133, net of taxes.....	-	-	(159)	(159)
Net income.....	-	3,688	-	3,688
Unrealized loss on equity securities.....	-	-	65	65
Derivatives.....	-	-	114	114
Minimum pension liabilities.....	-	-	(107)	(107)
Other changes.....	-	6	-	6
Dividends.....	-	(1,578)	-	(1,578)
Balance as of December 31, 2001.....	6,063	13,823	(419)	19,467
	(millions of U.S. dollars)			
Balance as of December 31, 2001.....	5,397	12,303	(373)	17,327

## **DISCLOSURE OF COMPREHENSIVE INCOME, NET OF TAX**

	2000 (millions of euro)	2001 (millions of euro)	2001 (millions of U.S. dollars)
Net income.....	1,842	3,688	3,282
Minimum pension liabilities.....	127	(107)	(95)
Unrealized loss on equity securities .....	(65)	65	58
Derivatives.....	-	(45)	(40)
Total comprehensive income.....	1,904	3,601	3,205

## (27) 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 2001 and will continue in the future. These reductions are expected to result from lower rates for generation, transmission and distribution fees, the application of price cap reductions to transmission and distribution fees and reductions in generation fees in connection with the operation of the Pool Market, which is expected to begin operations in 2002.

### *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 the two residual Gencos (Eurogen and Interpower). 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 under U.S. GAAP for the years ended December 31, 1999, 2000, and 2001 is as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
		(millions of euro)		(millions of U.S. dollars)
Current .....	1,464	872	1,569	1,397
Deferred .....	469	548	(1,022)	(910)
	<u>1,933</u>	<u>1,420</u>	<u>547</u>	<u>487</u>

The difference between the statutory and effective tax rate for the years ended December 31, 1999, 2000 and 2001, is due to the following factors:

	1999	2000	2001
Statutory tax rate .....	48.0%	48.0%	47.0%
Valuation allowance.....	(3.1)	-	-
Change in tax rates.....	-	(3.6)	-
Release of deferred tax provision following the freeing-up of accelerated depreciation reserves.....	-	-	(15.0)
Capital gains subject to 19% substitute tax.....	-	-	(20.0)
Permanent differences and other.....	0.8	1.0	1.8
Effective tax rate.....	45.7%	45.4%	13.8%

The components of the net deferred tax assets (liabilities) under U.S. GAAP as of December 31, 2000 and 2001 are as follows:

	2000 (millions of euro)	2001 (millions of euro)	2001 (millions of U.S. dollars)
Deferred tax assets:			
Other post retirement benefits .....	369	377	336
Revaluation of fixed assets .....	531	303	270
Provision for contingent liabilities and bad debt reserve.....	478	706	628
WIND loss carryforwards.....	200	655	583
Other .....	208	37	33
Subtotal .....	1,786	2,078	1,850
Deferred tax liabilities:			
Accelerated depreciation .....	(3,460)	(2,067)	(1,840)
Capitalization of interest on fixed assets .....	(580)	(545)	(485)
Unbilled revenues .....	(201)	-	-
Equity reserves .....	(106)	(106)	(94)
Other .....	(127)	(128)	(114)
Subtotal .....	(4,474)	(2,846)	(2,533)
Net deferred tax liabilities .....	(2,688)	(768)	(684)

(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. Since 1999, the Company has continued to diversify the business in order to provide a variety of utilities and services. New business sectors include power-related engineering and construction services in developing countries, fuel trading and gas distribution. Complementing the existing telecommunications business (WIND), in March 2001 the Company acquired Infostrada, one of Italy's leading alternative providers of fixed-line telecommunications 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 impacted on each of the Company's segments, including (but not limited to) changing tariff rates and reorganized activities. The changes impacted and 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: generation, transmission, distribution, telecommunication, 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.

Corporate operations consist primarily of the purchase of fuel used by the thermal generating plants in the generation segment and the purchase of electricity from third parties. Effective January 1, 2001, title to contracts for the acquisition of electricity from domestic producers was transferred to the System Operator (*Gestore della Rete*) pursuant to new regulations. Consequently, in 2001, corporate purchases consisted only of electricity imports. The corporate segment sells electricity purchased from third parties to the distribution segment at prices established by the Energy Authority and sells fuel to the generation segment at cost. In 2001, most of the segment's fuel purchase contracts were transferred to Enel.FTL, which is part of our other activities segment. For the period through December 31, 2000, the corporate also collected Equalization Fund contributions for electricity imports and energy purchased from domestic producers of electricity from renewable resources under the CIP 6 regime. Corporate is also responsible for defining and implementing the strategic plan, as well as providing treasury, human resources, risk management, legal and administrative services to each of the operating companies other than WIND.

The other activities of the Company include engineering and construction, fuel trading, real estate management and general services, information technology services, research and development and electricity systems-related activities. The other activities also include the gas distribution companies acquired in 2000 and 2001. 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 therefore have been grouped for purposes of segment reporting.

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 foreign operations represent approximately 1% both of total revenues in 2001 and total assets as of December 31, 2001.

Information about the Company's segments, prepared in accordance with Italian GAAP, for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>Generation</u>	<u>Transmission</u>	<u>Distribution</u>	<u>Telecom</u>	<u>Corporate</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of euro)							
<u>1999</u>								
Revenues.....	9,598	8,344	14,547	-	-	1,964	(13,493)	20,960
Operating Income .....	3,271	57	2,320	-	-	(239)	(24)	5,385
Depreciation and								
Amortization.....	1,288	221	1,487	-	-	207	-	3,203
Capital Expenditures.....	815	225	1,677	-	-	203	-	2,920
Identifiable Assets .....	22,012	4,040	16,176	-	-	8,840	(6,051)	45,017
<u>2000</u>								
Revenues.....	11,530	770	13,903	-	9,800	3,289	(14,183)	25,109
Operating Income .....	2,354	237	1,488	-	487	249	(62)	4,753
Depreciation and								
Amortization.....	1,410	229	1,611	-	7	202	-	3,459
Capital Expenditures.....	570	190	1,358	-	-	299	-	2,417
Identifiable Assets.....	23,206	4,138	17,049	-	6,402	11,266	(12,427)	49,634
<u>2001</u>								
Revenues.....	11,837	793	21,629	3,176	3,980	6,396	(19,030)	28,781
Operating Income .....	2,509	229	1,493	(1,237)	336	222	(74)	3,478
Depreciation and								
Amortization.....	1,362	240	1,535	1,068	2	252	-	4,459
Capital Expenditures.....	828	258	1,339	1,185	-	473	-	4,083
Identifiable Assets.....	21,156	4,537	18,019	16,899	6,093	10,054	(13,568)	63,190
	(millions of U.S. Dollars)							
<u>2001</u>								
Revenues.....	10,536	706	19,252	2,827	3,543	5,693	(16,938)	25,619
Operating Income .....	2,233	204	1,329	(1,101)	299	198	(66)	3,096
Depreciation and								
Amortization.....	1,212	214	1,366	951	2	224	-	3,969
Capital Expenditures .....	737	230	1,192	1,055	-	421	-	3,635
Identifiable Assets .....	18,831	4,038	16,039	15,042	5,423	8,949	(12,077)	56,245

The Company's segment information, prepared in accordance with U.S. GAAP, for the years ended December 31, 1999, 2000 and 2001 presented below has been restated to reflect the principal differences between the Company's accounting policies and U.S. GAAP.

	<u>Generation</u>	<u>Transmission</u>	<u>Distribution</u>	<u>Telecom</u>	<u>Corporate</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(millions of euro)							
<u>1999</u>								
Revenues .....	9,598	8,344	14,640	-	-	1,964	(13,493)	21,053
Operating Income .....	3,046	46	2,198	-	-	(164)	(24)	5,102
Depreciation and Amortization .....	1,338	211	1,407	-	-	108	-	3,064
Capital Expenditures .....	846	225	1,677	-	-	203	-	2,951
Identifiable Assets .....	22,450	4,000	18,024	-	-	6,918	(6,051)	45,341
<u>2000</u>								
Revenues .....	11,633	771	13,930	724	10,049	3,508	(14,183)	26,432
Operating Income .....	2,248	213	912	(320)	658	416	(62)	4,065
Depreciation and Amortization .....	1,377	212	1,619	107	22	148	-	3,485
Capital Expenditures .....	609	190	1,358	-	1	297	-	2,455
Identifiable Assets .....	24,075	4,118	18,358	4,781	6,369	10,356	(13,522)	54,535
<u>2001</u>								
Revenues .....	11,837	793	21,629	3,176	3,980	6,396	(19,030)	28,781
Operating Income .....	2,812	212	1,200	(1,293)	330	454	(74)	3,622
Depreciation and Amortization .....	1,311	220	1,701	1,034	2	210	-	4,478
Capital Expenditures .....	869	258	1,339	1,185	-	473	-	4,124
Identifiable Assets .....	21,873	4,490	18,994	16,658	6,117	9,235	(13,568)	63,072
	(millions of U.S. Dollars)							
<u>2001</u>								
Revenues .....	10,536	706	19,252	2,827	3,543	5,693	(16,938)	25,619
Operating Income .....	2,503	189	1,068	(1,151)	294	404	(66)	3,224
Depreciation and Amortization .....	1,167	196	1,514	920	2	187	-	3,986
Capital Expenditures .....	773	230	1,192	1,055	-	421	-	3,671
Identifiable Assets .....	19,469	3,997	16,907	14,827	5,445	8,220	(12,077)	56,141

(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, 1999, 2000 and 2001, 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, 1999, 2000 and 2001, prepared in accordance with U.S. GAAP, are as follows:

<u>Basic and Diluted EPS</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
	(millions of euro*)			(millions of U.S. dollars*)
Net income available to common shareholders .....	2,295	1,841	3,688	3,282
Weighted average shares outstanding (in millions) .....	6,063	6,063	6,063	6,063
	-----	-----	-----	-----
Earnings per share (basic and diluted).....	0.38	0.30	0.61	0.54
	=====	=====	=====	=====

(\*) – Except per-share data which is in Euro 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,			
	2000		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions of euro)			
Social security relief receivable (current and non-current portion).....	98	102	-	-
Bonds payable-listed.....	4,146	4,096	5,327	5,356
Other bonds and long-term debt, including Current maturities.....	5,905	5,952	11,312	11,328

- 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	
	2000	2001
	Fair Value	
	(millions of euro)	
Interest rate swaps .....	(59)	(130)
Interest rate collars .....	(4)	(6)
Total interest rate derivatives .....	(63)	(136)
Forward .....	(25)	2
Options .....	-	-
Total foreign exchange derivatives .....	(25)	2
	(88)	(134)

At December 31, 2001, the Company also had euro/dollar forward exchange contracts outstanding with an aggregate notional amount of euro 1,284 million, 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, 2001 and 2000, the Company accrued an amount of euro 12 million 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, 2001 and 2000 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 by euro 125 million and euro 43 million, at December 31, 2001 and 2000, 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>2000</u>	<u>2001</u>	<u>2001</u>
	(millions of euro)		(millions of U.S. dollars*)
<b><u>Utility plant, gross:</u></b>			
Generating Plant:			
Hydroelectric.....	6,893	6,530	5,812
Thermal.....	20,427	18,015	16,035
Geothermal and other renewable sources.....	1,484	1,509	1,343
Transmission line.....	5,134	5,370	4,780
Distribution Network.....	29,066	29,700	26,436
Telecommunication.....	1,504	3,334	2,968
Land and Buildings.....	1,893	1,613	1,436
Other.....	2,493	2,181	1,941
Construction in progress.....	2,026	2,256	2,008
Total.....	<u>70,920</u>	<u>70,508</u>	<u>62,759</u>
<b><u>Accumulated Depreciation:</u></b>			
Generating Plant:			
Hydroelectric.....	2,386	2,123	1,890
Thermal.....	8,526	8,063	7,177
Geothermal and other renewable sources.....	614	732	651
Transmission Line.....	1,924	2,123	1,890
Distribution Network.....	17,787	19,131	17,028
Telecommunication.....	276	847	754
Land and Buildings.....	535	324	288
Other.....	1,470	1,130	1,006
Construction in progress.....	-	-	-
Total.....	<u>33,518</u>	<u>34,473</u>	<u>30,684</u>
<b><u>Utility plant, net:</u></b>			
Generating Plant:			
Hydroelectric.....	4,507	4,407	3,923
Thermal.....	11,901	9,952	8,858
Geothermal and other renewable sources.....	870	777	692
Transmission Line.....	3,210	3,247	2,890
Distribution Network.....	11,279	10,569	9,407
Telecommunication.....	1,228	2,487	2,214
Land and Buildings.....	1,359	1,289	1,147
Other.....	1,023	1,051	936
Construction in progress.....	2,026	2,256	2,008
Total.....	<u>37,403</u>	<u>36,035</u>	<u>32,075</u>

(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, distribution and telecommunication assets. Management believes that the recorded costs of its long-lived assets are recoverable.

(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, following the authorization obtained in a ENEL Shareholders’ meeting, the Parent Company launched the “Stock Option Plan”, granting to certain of its executive 9,845,000 options (*Tranche 2000*). Options under this plan vest if certain target prices, or other criteria, are met. Since certain targets were not achieved, a portion of the options were forfeited. The status of the stock options granted under the Stock Option Plan is as follows:

	Number of <u>Options</u>	Average <u>Grant Price</u> (euro)
Outstanding at January 1, 2000.....	-	-
Granted.....	9,845,000	8.60
Exercised.....	-	-
Forfeited.....	<u>(4,331,800)</u>	8.60
Outstanding at December 31, 2000.....	<u>5,513,200</u>	8.60

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%

In 2001, the Company granted a second tranche of options under the plan (*Tranche 2001*) for additional 34,274,050 options. This tranche’s options vest if certain target prices, or other criteria, are met. Since certain targets were not achieved, a portion of the options were forfeited. The status of the stock options granted under the Stock Option Plan is as follows:

	Number of <u>Options</u>	Average <u>Grant Price</u> (euro)
Outstanding at January 1, 2001.....	5,513,200	8.60
Granted.....	34,274,050	7.27
Exercised.....	-	-
Forfeited.....	<u>(15,090,582)</u>	7.27
Outstanding at December 31, 2001.....	<u>24,706,668</u>	7.57

The average fair value of options granted during 2001 was approximately euro 0.48 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:

<u>Tranche 2001</u>	
Future dividends per share.....	euro 0.36
Risk-free interest rate.....	4.05%
Expected life.....	2.5 years
Expected volatility.....	27%

The following table summarizes certain information for the options granted by the Parent Company, outstanding at December 31, 2001:

<u>Options Outstanding</u>				<u>Options exercisable</u>			
<u>Tranche</u>	<u>Range of Grant Prices (euro)</u>	<u>Weighted Average Remaining Options</u>	<u>Weighted Average Grant Life (years)</u>	<u>Weighted Average Grant Price (euro)</u>	<u>Weighted Average Grant Options</u>	<u>Price (euro)</u>	<u>Fair Value (euro)</u>
2000	8.60	5,513,200	1.5	8.60	5,513,200	8.60	0.47
2001	7.27	19,193,468	2.5	7.27	19,193,468	7.27	0.48

In 2001, WIND launched a Stock Option Plan on WIND shares. Options under this plan vest if certain targets result, or other criteria are met during the year 2002 and WIND's IPO is executed before September 2003. The options could be exercised starting in 2004. The options will be partially exercisable during 2003 if Wind's IPO is completed during 2002. The status of the stock options offered under the Stock Option Plan is as follows:

<i>Wind Plan</i>	<u>Number of Options</u>	<u>Average Grant Price (euro)</u>
Outstanding at January 1, 2001.....	-	-
Granted.....	4,947,150	22.46
Exercised.....	-	-
Forfeited.....	-	-
Outstanding at December 31, 2001.....	<u>4,947,150</u>	

The average fair value of options granted by Wind during 2001 was approximately euro 4.70 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:

<u>Tranche 2000</u>	
Future dividend per share.....	-
Risk-free interest rate.....	4.70%
Expected life.....	5 years
Expected volatility.....	-

The following table summarizes certain information for the options granted by Wind outstanding at December 31, 2001:

<u>Range of Grant Prices (euro)</u>	<u>Options Outstanding</u>			<u>Options exercisable</u>	
	<u>Weighted Average Remaining Options</u>	<u>Weighted Average Grant Life (years)</u>	<u>Weighted Average Grant Price (euro)</u>	<u>Weighted Average Grant Options</u>	<u>Price (euro)</u>
22.46	4,947,150	5	22.46	-	-

The Company's pro forma earnings per share for the year ended December 31, 2001, had compensation costs, relating to the plan launched by the Parent Company and its subsidiary Wind, been recorded in accordance with SFAS No. 123, are presented below (millions of euro, except per share amounts):

	<u>2000</u>		<u>2001</u>	
	<u>As Reported</u>	<u>Pro Forma</u>	<u>As Reported</u>	<u>Pro Forma</u>
Net income.....	1,841	1,836	3,688	3,682
Basic and diluted earnings per share.....	0.15	0.15	0.61	0.61

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 13). 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	2001	1999	2000	2001
Discount rate .....	5.0%	5.5%	5.0%	5.0%	5.5%	5.0%
Expected long term rate of return on plan assets .....	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase .....	3.0%	3.5%	3.5%	N/A	N/A	N/A

**Change in Benefit Obligation:**

	Pensions Benefits		Other Postretirement Benefits	
	2000	2001	2000	2001
	(millions of euro)		(millions of euro)	
Benefit obligation at January 1 .....	3,031	2,172	1,083	1,021
Service cost .....	148	87	12	12
Interest cost .....	139	109	53	55
Actuarial (gain) loss .....	(78)	126	(81)	(19)
Curtailement cost .....	(106)	(69)	-	-
Benefit paid from corporate assets .....	(962)	(486)	(46)	(44)
	-----	-----	-----	-----
Benefit obligation at December 31 .....	2,172	1,939	1,021	1,025
	=====	=====	=====	=====
<b>Reconciliation of Funded Status of the Plans:</b>				
Funded (unfunded) status .....	(2,172)	(1,939)	(1,021)	(1,025)
Unrecognized net (gain) loss .....	534	605	(34)	(53)
Unrecognized net transition obligation .....	(53)	(47)	-	-
	-----	-----	-----	-----
Prepaid (accrued) benefit cost .....	(1,691)	(1,381)	(1,055)	(1,078)
Adjustment for minimum liability .....	(305)	(439)	-	-
	-----	-----	-----	-----
Amount recognized in Balance Sheet .....	(1,996)	(1,820)	(1,055)	(1,078)
	=====	=====	=====	=====

	Pensions Benefits			Other Postretirement Benefits		
	1999	2000	2001	1999	2000	2001
<b>Components of Net Periodic Benefit Cost:</b>						
Service cost (net of employee contribution) .....	145	148	87	27	12	12
Interest cost .....	169	139	109	45	53	55
Net amortization and deferral .....	26	24	16	-	-	-
	-----	-----	-----	-----	-----	-----
Net periodic benefit cost .....	340	311	212	72	65	67
	-----	-----	-----	-----	-----	-----
Curtailement gain .....	-	(23)	(69)	-	-	-
Settlement cost .....	23	130	-	-	-	-
	-----	-----	-----	-----	-----	-----
Total cost accrual .....	364	418	143	72	65	67
	=====	=====	=====	=====	=====	=====

**Change in Plan Assets:**

There are no assets with respect to any of the plans

(k) Derivative financial instruments

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (embedded derivatives) and for hedging activities. SFAS 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. The difference between a derivative's previous carrying amount and its fair value as of January 1, 2001 shall be reported as a transition adjustment in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

As of January 1, 2001, the Company classified for U.S. GAAP purposes all of its derivative instruments into two categories, for which the accounting are as follows:

- For "cash flow hedges," the effective portion of the gain or loss from the derivative hedging instrument is accumulated in other comprehensive income ("OCI") and recognized in earnings during the period that the hedged forecasted transaction impacts earnings. The ineffective portion of the gain or loss from the derivative hedging instrument is recognized in earnings immediately.
- For all other derivative contracts, which do not qualify for the special hedge accounting treatment under SFAS 133, gains and losses are recorded in earnings each reporting period.

Since the adoption of SFAS 133, the Company implemented controls to identify and, if necessary, recognize any potential embedded derivatives. The Company believes that its power purchase agreements and gas transportation contracts qualify for the normal purchases and sales exception of SFAS No. 133. Accordingly, until December 31, 2001 no embedded derivatives were required to be separated from the underlying contract and carried at fair value.

Upon adoption of SFAS 133, Enel recorded the following transition adjustments on January 1, 2001:

	<u>As of January 1, 2001</u> (millions of euro)
Fair value of derivative liabilities .....	249
Decrease in net income.....	(5)
Decrease in accumulated other comprehensive income (pre-tax).....	(244)

For the amounts classified in other comprehensive income, euro 224 million were reclassified into earnings during 2001, as the hedged forecasted transaction impacts earnings.

Cash Flow Hedges

As of January 1, 2001, Enel's cash flow hedges related to certain long-term bank loans, which had a total carrying amount of euro 3,856 million. The Company has swapped these variable interest rate loans into fixed interest rates.

The breakdown of the amounts related to instruments designated in cash flow hedging relationships after January 1, 2001 is as follows:

Type of Operation	Transition adjustment OCI	Gain (loss) in 2001	Reclassified to earnings in 2001	Recorded amount at December 31, 2001
Interest rate swaps.....	(20)	(52)	-	(72)
Total.....	(20)	(52)	-	(72)

The Company assumes no ineffectiveness in these hedge relationships as they qualify for the short-cut method. Accordingly, Enel recognizes all changes in fair value of the hedging instrument in other comprehensive income and subsequently reclassifies amounts into earnings as the hedged forecasted transaction impacts earnings. The Company estimates that euro 0,2 million of net derivative losses included in other comprehensive income as of December 31, 2001 will be reclassified into earnings within the next twelve months.

#### Other Derivative Contracts

The Company enters into other derivative contracts used to mitigate the effects of crude oil, electricity and gas price fluctuations. In addition, the Company also holds various types of foreign exchange contracts as well as other interest rate swaps and collars not designated in cash flow hedges. Accordingly, the Company records these contracts at fair value with all changes in fair value being recorded as a component of income from continuing operations during the period that such contracts remain outstanding.

Type of Operation	Transition adjustment		Gain (Loss) in	Reclassified to	Recorded amount
	Earnings	OCI	2001	earnings in 2001	at Dec. 31, 2001
Interest rate swaps.....	(5)	(16)	(46)	16	(46)
Interest rate collars.....	-	(3)	(6)	3	(6)
Forwards exchange agreements	-	(85)	18	85	18
Options.....	-	-	-	-	-
Commodity swaps.....	-	(120)	11	120	11
Commodity futures.....	-	-	8	-	8
	(5)	(224)	(15)	224	(15)

Derivative instruments are reported on a net-by-counterparty basis on the consolidated balance sheet where management believes a legal right of setoff exists under an enforceable netting agreement.

(28) SUBSEQUENT EVENTS

Acquisition of Viesgo

On January 8, 2002 the Company completed the acquisition of 100% of Viesgo, a holding company controlling electricity generation and distribution interests, which was formerly owned by a Spanish company Endesa. The value of the transaction amounts to euro 1,870 million, in addition to about euro 130 million of debt assumed by the Company. The Viesgo Group has about 900 employees, a net installed generation capacity of 2,400 MW and about 500,000 customers. Generation plants are distributed throughout the Spanish territory and use primarily (72%) thermal fuels (coal and fuel oil), while the remaining 28% is represented by hydroelectric plants. The distribution network acquired extends over 24,500 kilometers in an area of Northern Spain that has registered a 4% average annual economic growth in recent years.

Acquisition of the Camuzzi Group

Through an agreement signed on March 4, 2002 the Company acquired 98,58% of Camuzzi Gazometri's capital stock for euro 1,043 million. Camuzzi Group's Argentinean activities, Piacenza Football Club, and the editorial and telecommunications activities are excluded from the sale. The operation was closed in May, 2002 following the approval of the competent Authorities.

Thanks to this operation the Company consolidates its position, becoming the second largest operator in the gas distribution Italian market with 1.7 million customers and a distribution capacity of more than 3 billion cubic meters.

Sale of Eurogen

On May 31, 2002, the Company sold 100% of the share capital of Eurogen to Edipower S.p.A., a consortium formed by Edison S.p.A., AEM S.p.A., AEM Torino S.p.A., Aar e Ticino SA di Elettricità (Atel), Unicredito Italiano S.p.A., Interbanca S.p.A. and Albojo Limited for total consideration of euro 3,808 million, including euro 3,057 million in cash (including a proposed price adjustment of approximately euro 77 million which could be reduced if not approved by the acquirer), and the assumption of euro 751 million in debt.

## **REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors and Shareholders of  
Wind Telecomunicazioni SpA

We have audited the consolidated balance sheet of Wind Telecomunicazioni SpA (an Italian corporation) and its subsidiaries (the “Company”) as of December 31, 2001, and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for the year then ended (all expressed in Euro). These financial statements are the responsibility of the Company’s directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wind Telecomunicazioni SpA and its subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Italy.

We draw your attention to the matters regarding the merger with Infostrada SpA, deferred tax assets, tangible and intangible assets as described in the notes to the consolidated financial statements.

We also draw your attention to the fact that this opinion relates only to the financial statements referred to above that were prepared under the Italian regulation governing financial statements and do not conform with accounting principles generally accepted in the United States (U.S. GAAP).

Rome, 8 March 2002

PricewaterhouseCoopers SpA

## 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 1, 2002



## **Index to Exhibits**

<u>Exhibit Number</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
1.1	By-laws of Enel S.p.A.	
8.1	List of subsidiaries of the registrant	
99.1	Letter of Enel S.p.A. regarding Arthur Andersen	



## **EXHIBIT 1.1**

### **1. By-laws of Enel S.p.A.**



## Corporate Bylaws

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Regulations  
of the meetings  
of the shareholders  
of Enel SpA

May 2002



Text of the bylaws approved by the extraordinary shareholders' meeting  
of September 24, 1999, as amended by the extraordinary shareholders' meetings  
of December 18, 1999 (with the inclusion of article 5.4, subsequently abrogated) and of May 26, 2000  
(with the supplement of article 17.5), as well as by the Board of Directors on April 9, 2001  
(through insertion of article 5.5, now 5.4) and by the extraordinary shareholders' meetings of May 25, 2001  
(through the amendment of article 5 and the insertion of article 11.2) and of May 24, 2002  
(through the amendment of article 28)

Enel - Società per Azioni



## Corporate Bylaws

### Title I

#### Incorporation, Company name, Registered office, Term

##### *article 1*

1.1 The Company shall be called "ENEL - Società per azioni" and shall be governed by the rules of the present bylaws.

##### *article 2*

2.1 The registered office of the Company shall be located in Rome, at 137 Viale Regina Margherita.

2.2 Local offices, branches and representative offices may be opened and/or closed both in Italy and abroad in accordance with the law.

##### *article 3*

3.1 The Company shall exist until December 31, 2100 and its term may be extended one or more times by resolution of a shareholders' meeting.

### Title II

#### Corporate Purpose

##### *article 4*

4.1 The purpose of the Company shall be to acquire and manage equity holdings in Italian or foreign companies and firms, as well as to provide such subsidiary companies and firms with strategic guidelines and coordination with regard to both their industrial organization and the business activities in which they engage.

Through affiliates or subsidiaries the Company shall operate especially:

- a) in the electricity industry, including the activities of production, importation and exportation, distribution and sale, as well as transmission within the limits of existing legislation;
- b) in the energy industry in general, including fuels, and in the field of environmental protection, as well as in the water sector;
- c) in the communications, telematics and information-technology industries and those of multimedia and interactive services;
- d) in network-based sectors (electricity, water, gas, district heating, telecommunications) or those which, in any case, provide urban services locally;
- e) in other sectors:

- in any way related to or connected with the activities carried out in the sectors mentioned above;
  - allowing the facilities, resources and expertise employed in the sectors mentioned above (such as, by way of example and without limitation: publishing, real estate and services to firms) to be enhanced and better utilized;
  - allowing the profitable use of the goods produced and the services provided in the sectors mentioned above;
- f) in the carrying out of activities involving systems and installations design, construction, maintenance and management; the production and sale of equipment; research, consulting and assistance; as well as the acquisition, sale, marketing and trading of goods and services, all activities connected with the sectors mentioned above under a), b), c) and d).

4.2 In the interest of its affiliates or subsidiaries, the Company may also carry out directly any activity connected with or instrumental to its own business or that of its affiliates or subsidiaries themselves.

To this end, the Company shall in particular see to:

- the coordination of the managerial resources of its affiliates or subsidiaries, including the carrying out of appropriate training initiatives;
- the administrative and financial coordination of its affiliates or subsidiaries, effecting in their favor all appropriate transactions, including granting loans and, more in general, the framework and management of their financial activities;
- the supply of other services in favor of its affiliates or subsidiaries in areas of specific business interest.

4.3 In order to attain its corporate purpose, the Company may also carry out any transaction instrumentally necessary or useful or at any rate related, such as, by way of example: the provision of collateral and/or personal guarantees for both its own and third-party commitments; transactions involving movables and real-estate and commercial operations; and anything else that is connected with its corporate purpose or that allows better use of its own facilities and/or resources or those of its affiliates or subsidiaries, with the exception of accepting monetary deposits from the public and providing investment services as defined by legislative decree n. 58 of February 24, 1998, as well as the activities referred to in section 106 of legislative decree n. 385 of September 1, 1993 insofar as they are also exercised vis-à-vis the public.

### **Title III**

#### **Capital Stock - Shares - Bonds**

##### *article 5*

5.1 The nominal value of the Company's share capital amounts to 6,063,075,189 euros, divided into 6,063,075,189 ordinary shares, each with a par value of 1 euro.

- 5.2 The shares can not be divided and every share shall entitle the holder to one vote.
- 5.3 The mere fact of being a shareholder shall constitute acceptance of these bylaws.
- 5.4 Partially exercising the delegation granted it by the shareholders' meeting of December 18, 1999, on April 9, 2001 the Board of Directors resolved:
1. to proceed with the capital increase for the 2000 Plan as follows:
    - increase of the share capital by payment by a maximum amount of 11,026,400,000 lire through the issue of a maximum number of 11,026,400 new ordinary shares with a par value of 1,000 lire each, at the price of 4.3 euros (corresponding to 8,326 lire), reserved for subscription to the executives of ENEL S.p.a. and/or subsidiaries thereof, pursuant to section 2359 of the Civil Code, who were selected on March 3, 2000 to participate in the 2000 Plan;
    - the deadline set for completing the subscription of the increase is December 31, 2004; and in the event the increase is not totally subscribed by this date, the capital shall be increased by an amount equal to the subscriptions received;
  2. to proceed with the capital increase for the 2001 Plan as follows:
    - increase of the share capital by payment by a maximum amount of 68,548,100,000 lire through the issue of a maximum number of 68,548,100 new ordinary shares with a par value of 1,000 lire each, at a price corresponding to the arithmetical average of the reference prices of ENEL shares recorded by the online stock market of Borsa Italiana S.p.a. during the period between April 9, 2001 (date of the allotment of the options to the "Assignees") and the same day of the preceding solar month (as such price is certified on the same day by Borsa Italiana S.p.a. at the closing of trading); the increase being reserved for subscription to the executives of ENEL S.p.a. and/or subsidiaries thereof, pursuant to section 2359 of the Civil Code, who were selected on the same day to participate in the 2001 Plan;
    - the deadline set for completing the subscription of the increase is December 31, 2005; and in the event the increase is not totally subscribed by this date, the capital shall be increased by an amount equal to the subscriptions received.
- 5.5 Following the conversion of the share capital into euros and the reverse stock split (resolved by the shareholders' meeting of May 25, 2001):
- the increase of the share capital as part of the 2000 Plan resolved by the Board of Directors on April 9, 2001 remains determined at a maximum amount of 5,513,200 euros through the issue of a maximum number of 5,513,200 new ordinary shares with a par value of 1 euro each, at the price of 8.6 euros;
  - the increase of the share capital as part of the 2001 Plan resolved by the Board of Directors on April 9, 2001 remains determined at a maximum amount of 34,274,050 euros through the issue of a maximum number of 34,274,050 new ordinary shares with a par value of 1 euro each, at the price of 7.272 euros.

5.6 Pursuant to section 2443 of the Civil Code, the Board of Directors is authorized, for a period of five years from the shareholders' resolution of May 25, 2001, to increase the share capital one or more times by a maximum total amount of 60,630,750 euros, through the issue of a maximum of 60,630,750 ordinary shares with a par value of 1 euro each, which shall rank for dividend *pari passu*.

These shares shall be offered for subscription by payment to executives of ENEL S.p.a. and/or subsidiaries thereof pursuant to section 2359 of the Civil Code, with exclusion of the preemptive rights pursuant to the combined provisions of section 2441, last paragraph, of the Civil Code and section 134, paragraphs 2 and 3, of legislative decree n. 58 of February 24, 1998.

The right to subscribe to these shares shall be personal and not transferable *inter vivos*. Resolutions of the Board of Directors shall set deadlines for subscription of the shares and shall provide that, in the event the increase resolved upon is not subscribed by the deadline set each time for that purpose, the share capital shall be increased by an amount equal to the subscriptions received up to such deadline.

#### article 6

6.1 Pursuant to section 3 of decree-law n. 332 of May 31, 1994, converted with revisions by Law n. 474 of July 30, 1994, no one, in whatever capacity, may own shares constituting more than 3% of the share capital, subject to the provisions of the law.

This limit on share ownership shall be calculated taking into account the total shareholding of a controlling entity, whether a natural or legal person or corporation; of all directly or indirectly controlled entities, as well as of the entities under a common control; of affiliates as well as natural persons related by blood or marriage until the second degree, including his or her spouse unless legally separated.

Control shall be deemed to exist, including with regard to persons or entities other than companies, in the cases provided for by section 2359, paragraphs 1 and 2, of the Civil Code. Affiliation shall be deemed to exist in the situations mentioned in section 2359, paragraph 3, of the Civil Code, as well as among persons or entities that, directly or indirectly, through subsidiaries other than investment management companies, enter into agreements - including those with third parties - regarding the exercise of voting rights or the transfer of shares of or interests in other companies, or any other agreements mentioned in section 122 of legislative decree n. 58 of February 24, 1998 with respect to third-party companies in the event that such agreements regard at least 10% of the voting stock if the companies concerned are listed or 20% if the companies concerned are not listed.

Calculation of the aforesaid limit on stock ownership (3%) shall also take into account the shares held through fiduciaries and/or nominees, or in general through intermediaries.

Voting rights attributable to shares held in excess of the aforesaid limit may not be exercised and the voting rights of each of the parties concerned by the ownership limit will be reduced pro rata, unless a different prior indication has been jointly given by the shareholders concerned. A resolution passed with the votes of shares held in violation of the limit may be challenged in court under section 2377 of the Civil Code, provided that the resolution would

not have been passed without the votes relating to shares held in violation of the limit. The shares for which voting rights may not be exercised shall be counted, however, for the purpose of determining the quorum at shareholders' meetings.

6.2 Pursuant to paragraph 1 of section 2 of decree-law n. 332 of May 31, 1994, converted with revisions by Law n. 474 of July 30, 1994, the Minister of the Treasury, the Budget and Economic Planning - in agreement with the Minister of Industry, Commerce and Crafts - shall hold the following special powers:

- a) approval to be granted expressly when persons or entities affected by the limit on stock ownership specified in section 3 of decree-law n. 332 of May 31, 1994, converted with revisions by Law n. 474 of July 30, 1994, acquire significant holdings, by which is meant - as established by a decree of the Minister of the Treasury, the Budget and Economic Planning - those equal to or exceeding 3% of the share capital represented by shares with voting rights at ordinary shareholders' meetings. The approval must be granted within sixty days from the date of notice to be given by the Board of Directors when the request is made for registration in the shareholders' register. Until approval is granted and in any case after the deadline has passed without the approval being granted, the transferee may not exercise the voting rights - and any other right other than economic rights - attributable to the shares that represent the significant holding. In the event that approval is denied or the deadline expires without the approval being granted, the transferee must dispose of the shares in question within one year. In case of failure to comply, upon request by the Minister of the Treasury, the Budget and Economic Planning a court will order the sale of the shares that represent the significant holding according to the procedures specified in section 2359-ter of the Civil Code;
- b) approval to be granted expressly as a condition for the validity of the agreements referred to in section 122 of legislative decree n. 58 of 1998 in the event that they regard at least one-twentieth of the capital stock consisting of shares with voting rights at ordinary shareholders' meetings or a lower percentage to be established by a decree of the Minister of the Treasury, the Budget and Economic Planning. Until approval is granted and in any case after the deadline has passed without the approval being granted, the shareholders participating in the agreement may not exercise the voting rights and any other right other than economic rights. For purposes of granting approval, the CONSOB shall inform the Minister of the Treasury, the Budget and Economic Planning of the significant agreements and pacts described in this Article of which it has received notice in compliance with the above-mentioned section 122 of legislative decree n. 58 of 1998. The power of approval must be exercised within sixty days from the date of the notice given by the CONSOB. In the event that approval is denied or the deadline expires without the approval being granted, the agreements shall not be effective.

If it can be inferred from their conduct at a shareholders' meeting that the shareholders participating in the syndicate are keeping the commitments made when they joined the

pacts referred to in the above-mentioned section 122 of legislative decree n. 58 of 1998, resolutions adopted with the decisive vote of the aforesaid shareholders may be challenged in court;

- c) veto of the adoption of resolutions regarding dissolution of the Company; transfer of its business, merger or demerger; transfer of the registered office abroad; change in the corporate purpose; or modification of the bylaws so as to abolish or modify the powers specified under a), b), c) and d) of this clause;
- d) appointment of a Director and a regular member of the Board of Statutory Auditors. In the event that the Director or the member of the Board of Statutory Auditors appointed in this way is terminated from office, the Minister of the Treasury, the Budget and Economic Planning, in agreement with the Minister of Industry, Commerce and Crafts, will appoint a substitute.

The persistence of the reasons that justify the clause referred to in paragraph 1 of this Article 6.2 shall be subject to review after a period of five years from its inclusion, partly in consideration of the progress made in the liberalization of energy sources in Europe. Any revisions after the aforesaid review shall be made by a decree of the Prime Minister upon proposal of the Minister of the Treasury, the Budget and Economic Planning, in agreement with the Minister of Industry, Commerce and Crafts.

#### *article 7*

7.1 When fully paid, and if permitted by the law, shares may be to the bearer. Bearer shares may be converted into registered shares and vice versa. The cost of conversion shall be borne by the shareholder.

#### *article 8*

8.1 When for any reason a share belongs to two or more persons, the rights attributable to said share may be exercised by only one person or by one representative of the joint holders.

#### *article 9*

9.1 A shareholders' meeting may resolve on capital increases and shall establish the terms, conditions and procedures thereof.

9.2 Shareholders' meetings may approve capital increases through issues of shares, including issues of shares of special classes, to be allocated free of charge pursuant to section 2349 of the Civil Code in favor of employees, or for payment and excluding the preemptive rights pursuant to section 2441 of the Civil Code in favor of parties indicated in a resolution of a shareholders' meeting.

#### *article 10*

10.1 Shares shall be paid for in one or more installments, as the Board of Directors may require.

10.2 Subject to the provisions of section 2344 of the Civil Code, interest shall be charged to shareholders in arrears at the official discount rate determined on the basis of applicable law.

#### *article 11*

11.1 In accordance with the law, the Company may issue bonds, including convertible bonds or bonds with warrants.

11.2 Pursuant to section 2420 (b) of the Civil Code, the Board of Directors is empowered for a period of five years as from the resolution of the shareholders' meeting of May 25, 2001 to issue - one or more times and in one or more tranches - bonds, including convertible ones, up to the amount of 4,000,000,000 euros.

The Board of Directors is invested with all powers in this regard, including the power to establish the yield, maturity and regulations of the issues.

### **Title IV**

#### **Shareholders' Meetings**

#### *article 12*

12.1 Ordinary and extraordinary shareholders' meetings shall normally be held at the Company's registered office. The Board of Directors may determine otherwise, provided the venue is in Italy.

12.2 An ordinary shareholders' meeting must be called at least once a year, to approve the financial statements, within six months after the end of the accounting period, in view of the nature of the business carried out pursuant to Article 4 hereof.

#### *article 13*

13.1 The procedures and formalities for participating in shareholders' meetings shall be regulated by the provisions of applicable law.

#### *article 14*

14.1 Any shareholder entitled to participate in a meeting may appoint a representative to act in his behalf according to the provisions of law by means of a written proxy. Duly formed legal persons may participate in a shareholders' meeting through a person (who need not be a shareholder) designated by written proxy. In order to facilitate the collection of proxies from the shareholders who are employees of the Company and its subsidiaries and members of shareholder associations satisfying the requirements set by the regulations in force, facilities for communication and for the collection of proxies shall be made available to the aforesaid associations according to the terms and procedures agreed upon each time with their legal representatives.

14.2 It shall be the responsibility of the chairman of a shareholders' meeting to verify the validity of the single proxies and, in general, the right to participate in the meeting.

14.3 Shareholders' meetings shall be conducted according to a Regulation approved by a resolution of an ordinary shareholders' meeting.

#### *article 15*

15.1 Shareholders' meetings shall be chaired by the Chairman of the Board of Directors or, if he or she is not available, by the Deputy Chairman if one has been appointed. In the absence of both, the meeting shall be chaired by a person designated by the Board, failing which the meeting shall elect its chairman.

15.2 The chairman of a shareholders' meeting shall be assisted by a secretary (who need not be a shareholder) designated by the participants in the meeting, and may appoint one or more tellers.

#### *article 16*

16.1 Ordinary meetings shall resolve on all matters authorized by law.

16.2 At both ordinary and extraordinary shareholders' meetings, whether held on the first, second or third call, resolutions must be adopted by the majority required by law in each case.

16.3 The resolutions approved by a shareholders' meeting in accordance with the law and these bylaws shall be binding upon all shareholders, even if they did not attend or voted against the resolution.

16.4 The minutes of ordinary meetings must be signed by the chairman and the secretary.

16.5 The minutes of extraordinary meetings must be drawn up by a notary public.

### **Title V**

#### **Board of Directors**

#### *article 17*

17.1 The Company shall be managed by a Board of Directors composed of no fewer than three and no more than nine members. A shareholders' meeting shall determine their number within the aforesaid limits.

17.2 The Board of Directors shall serve for a term of up to three years and its members shall be eligible for re-election pursuant to section 2383 of the Civil Code.

17.3 With the exception of the one appointed under Article 6.2, d) of these bylaws, the Directors shall be elected by a shareholders' meeting on the basis of slates presented by the

shareholders and by the outgoing Board of Directors. Within each slate, the candidates must be numbered progressively.

In the event the outgoing Board of Directors presents a slate of its own, the same must be lodged at the registered office and published in at least three Italian daily newspapers with nationwide circulation, including two financial ones, at least twenty days before the first meeting date.

The slates presented by the shareholders must be lodged at the registered office and published in the same way as indicated above at least ten days before the first meeting date. Each shareholder shall present or participate in presenting only one slate and each candidate shall be presented on only one slate under pain of ineligibility.

Only those shareholders who, alone or together with other shareholders, represent at least 1% of the shares with voting rights at ordinary shareholders' meetings shall be entitled to present slates. In order to prove ownership of the number of shares necessary for the presentation of slates, at least five days prior to the first meeting date shareholders must present and/or deliver to the registered office a copy of the documentation proving the right to participate in the meeting.

The declarations of the individual candidates, in which they accept their candidacies and certify, under their own responsibility, the inexistence of any cause of ineligibility or incompatibility, as well as the satisfaction of the requirements prescribed by applicable law for their respective offices, must be lodged together with each slate by the respective deadlines specified above.

All those entitled to vote shall vote for only one slate.

The procedure for electing the Directors shall be as follows:

- a) four-fifths of the Directors to be elected, rounding down any fraction to the unit, will be drawn from the slate that obtains a majority of the votes cast by the shareholders in the order in which they are listed on the slate;
- b) the remaining Directors will be drawn from the other slates; for this purpose, the votes obtained by these slates will be divided successively by one, two, three and so forth according to the progressive numbers of the Directors to be elected. The numbers obtained in this way will be attributed to the candidates of such slates in the order in which they rank in the slate. The numbers thus attributed to the candidates of the various slates will be arranged in decreasing order in a single ranking. The candidates who obtain the highest numbers will become Directors.

In the event that more than one candidate has obtained the same number, the candidate of the slate that has not yet elected a Director or that has elected the fewest Directors will be appointed Director.

In the event that no Director has been elected yet from any of these slates or that the same number of Directors has been elected from each slate, the candidate of the slate that has obtained the most votes will be appointed Director. If there is a tie in terms of both numbers assigned and votes obtained by each slate, the entire shareholders'

meeting will vote again and the candidate who obtains a simple majority of the votes will be appointed Director;

- c) when less than the entire Board of Directors is being elected, the shareholders' meeting will resolve according to the majorities provided for by the law, without following the procedure specified above.

17.4 Even during a Board's term, a shareholders' meeting may change the number of the members of the Board of Directors within the limit referred to in the first paragraph of this Article and proceed to elect them. The term of the Directors so elected shall end at the same time as that of the Directors in office.

17.5 Should one or more vacancies occur on the Board during the accounting period, steps shall be taken in accordance with section 2386 of the Civil Code, except with regard to the Director appointed pursuant to Article 6.2, d) of these bylaws. If one or more of the Directors leaving their offices vacant were drawn from a slate also containing unelected candidates, they shall be replaced by appointing, in progressive order, persons drawn from the slate to which the Director in question belonged, provided that said persons are still eligible and willing to accept the directorship. In the event that the majority of the Directors' offices becomes vacant, the entire Board shall be deemed to have resigned and must promptly call a meeting of the shareholders to elect a new Board.

#### *article 18*

18.1 If a shareholders' meeting has not elected a Chairman of the Board, the Board shall elect one of its members to that position. It may elect a Deputy Chairman, who shall stand in for the Chairman in the event of his or her unavailability.

18.2 Upon the Chairman's proposal, the Board shall appoint a Secretary, who need not have any connection with the Company.

#### *article 19*

19.1 The Board shall meet at the place designated in the notice whenever the Chairman or, in the event the latter is unavailable, the Deputy Chairman deems necessary or a majority of its members so requests in writing. The Board may also be convened in the ways provided for in Article 28.4 of these bylaws.

19.2 Board meetings may also be held by audio/video conference or teleconference provided that all the participants can be identified and such identification is acknowledged in the minutes of the meeting, and that they are allowed to follow and participate in real time in the discussion of the matters considered; in such case, the Board of Directors shall be deemed held in the place where the Chairman is and where the Secretary must also be in order to allow the related minutes to be drawn up and signed.

19.3 The Board shall normally be called at least five days before the date on which the meeting is to be held. This period may be shorter in urgent cases. The Board of Directors shall decide the procedures for convening its own meetings.

19.4 The Board of Directors must also be convened if at least two Directors (or one if the Board is composed of three members) so request to resolve on a specific matter concerning the management of the Company which they consider of particular importance and which is to be indicated in the request itself.

In such an event, if the Board of Directors is not convened within fifteen days or does not adopt a resolution because a quorum is lacking or a meeting is not held within thirty days, the decision in question must be entrusted to a meeting of the shareholders if two Directors, or one if the Board is composed of three members, so request.

Such meeting shall be called promptly by the Board of Directors or, should it fail to do so, by the Board of Statutory Auditors.

#### *article 20*

20.1 Board meetings shall be chaired by the Chairman and, in his or her absence, by the Deputy Chairman if one has been appointed. If the latter is also absent, they shall be chaired by the oldest Director.

#### *article 21*

21.1 The quorum for meetings of the Board shall be a majority of the Directors in office.

21.2 Resolutions shall be adopted by a majority of the votes of the Directors present; in case of a tie, the vote of the person chairing the meeting shall be decisive.

#### *article 22*

22.1 The resolutions of the Board of Directors shall appear in minutes which, transcribed in a book kept according to law for the purpose, shall be signed by the chairman of the meeting or whoever acts in his or her behalf, and by the Secretary.

22.2 Copies of the minutes shall be fully certified if signed by the Chairman or whoever acts in his or her behalf, and by the Secretary.

#### *article 23*

23.1 The Board of Directors shall be vested with the broadest powers for conducting both the day-to-day and the extraordinary business of the Company and, in particular, shall have the authority to take all actions it deems advisable in order to carry out and attain the corporate purpose, excepting only the actions that the law and these bylaws reserve to shareholders' meetings.

23.2 The Board of Directors, or the Chief Executive Officer for it, shall promptly report to the

Board of Statutory Auditors - at least once every three months and in any case upon a meeting of the Board of Directors - on the activities carried out and the most important transactions affecting the results of operations and financial condition of the Company and its subsidiaries. It reports in particular on transactions involving a potential conflict of interest.

#### *article 24*

24.1 Within the limits set forth in section 2381 of the Civil Code, the Board of Directors may delegate powers to one of its members, determining the limits of the delegation. Upon proposal by the Chairman and in agreement with the Chief Executive Officer, the Board may delegate powers to others among its members for single acts or classes of acts.

24.2 Within the limits of the authority conferred on him, the Chief Executive Officer shall have the power to delegate single acts or classes of acts to employees of the Company or to third parties, authorizing subdelegation.

#### *article 25*

25.1 The legal authority to represent the Company and sign documents on its behalf is vested in both the Chairman of the Board of Directors and the Chief Executive Officer and, in the event that the former is unavailable, the Deputy Chairman if one has been appointed. The signature of the Deputy Chairman shall attest vis-à-vis third parties the Chairman's unavailability.

25.2 The above legal representatives shall be authorized to delegate the power to represent the Company, including in court, to third parties, who may also be authorized to subdelegate.

#### *article 26*

26.1 The Chairman and the members of the Board of Directors shall be entitled to compensation in an amount to be determined by an ordinary meeting of the shareholders. Once adopted, the resolution shall apply during subsequent accounting periods until a shareholders' meeting determines otherwise.

#### *article 27*

27.1 The Chairman shall:

- a) have the power to represent the Company pursuant to Article 25.1;
- b) preside at meetings of the shareholders pursuant to Article 15.1;
- c) call and preside at meetings of the Board of Directors pursuant to Articles 19 and 20.1;
- d) ascertain that the resolutions of the Board are carried out.

## **Title VI**

### **Board of Statutory Auditors**

#### *article 28*

28.1 A shareholders' meeting shall elect the Board of Statutory Auditors, which is to be composed of three regular members, and shall determine their compensation. Two alternate members shall also be elected by a shareholders' meeting.

The members of the Board of Statutory Auditors must possess the requisites of professionalism and honorableness specified in the Ministry of Justice's decree n. 162 of March 30, 2000. For the purposes of the provisions of section 1, paragraph 2, b) and c) of this decree, the following are considered closely connected with the scope of the Company's business activities: subjects pertaining to commercial law and tax law, business economics and business finance, as well as subjects and fields of activity pertaining to energy in general, communications, telematics and information technology, and network structures.

In addition to the situations of ineligibility specified by the law, those who are regular members of the Board of Statutory Auditors in five or more companies not controlled by ENEL S.p.a. issuing securities in the regulated markets may not be elected to the Board of Statutory Auditors, and if elected shall be debarred from office.

28.2 With the exception of the member appointed pursuant to Article 6.2, d) of these bylaws, regular members of the Board of Statutory Auditors and alternate members shall be elected by shareholders' meetings on the basis of the slates presented by the shareholders, on which the candidates must be numbered progressively.

The procedures of Article 17.3 of these bylaws shall apply to the presentation, lodgment and publication of the slates.

The slates are to be divided into two sections: one for the candidates for the office of regular auditor and the other for candidates for the office of alternate auditor. The first candidate in each section must be a registered auditor and have practiced the profession of legal auditor for a period of no less than three years.

A regular member of the Board of Statutory Auditors and an alternate member shall be drawn in order from the slate that obtains a majority of votes. The remaining regular member and the remaining alternate shall be elected according to the procedures specified in Article 17.3, b), to be applied separately to each of the sections in which the other slates are divided.

When less than the entire Board is being elected, the shareholders' meeting shall resolve according to the majorities provided for by the law, without following the procedure specified above, but in any case in such a way as to ensure that the composition of the Board of Statutory Auditors is in accordance with the provisions of section 1, paragraph 1, of the Ministry of Justice's decree n. 162 of March 30, 2000.

The member appointed pursuant to Article 6.2, d) of these bylaws shall be Chairman of the Board. In the event that the member drawn from the slate that obtained a majority of the votes is substituted, his or her place shall be taken by the alternate member drawn from the

same slate. In the event that the member drawn from other slates is substituted, his or her place shall be taken by the alternate member elected according to the procedure specified by Article 17.3, b). Article 6.2, d) of these bylaws shall apply with regard to the substitution of the Chairman of the Board of Statutory Auditors.

28.3 Auditors whose term has expired shall be eligible for re-election.

28.4 Upon notice to the Chairman of the Board of Directors, the Board of Statutory Auditors may call a shareholders' meeting and a Board of Directors' meeting. The power of calling a meeting may also be exercised by at least two members of the Board of Statutory Auditors.

## **Title VII**

### **Financial Statements and Earnings**

#### *article 29*

29.1 The accounting period shall end on December 31 of every year.

29.2 At the end of each accounting period, the Board of Directors shall draw up the Company's financial statements as required by law.

29.3 The Board of Directors may distribute interim dividends to shareholders during the course of the year.

#### *article 30*

30.1 Dividends not collected within five years from the day they become payable shall be forfeited to the Company and posted directly to reserves.

## **Title VIII**

### **Dissolution and Liquidation of the Company**

#### *article 31*

31.1 Should the Company be dissolved, a shareholders' meeting shall determine the liquidation procedures and appoint one or more liquidators, establishing their powers and compensation.

## **Title IX**

### **Transitory and General Rules**

#### *article 32*

32.1 Any matters not expressly provided for herein shall be governed by the provisions of the Civil Code and applicable statutes.

**article 33**

33.1 The Company shall continue to carry out all the activities that - under legislative decree n. 79 of March 16, 1999, published in the *Gazzetta Ufficiale*, issue 75 of March 31, 1999 - have been temporarily entrusted to it pending their award to other entities according to the provisions of the legislative decree.

**Note**

*The Ente Nazionale per l'Energia Elettrica, a public statutory body established by Law n. 1643 of December 6, 1962, was transformed into a joint stock company by decree-law n. 333 of July 11, 1992, converted by Law n. 359 of August 8, 1992. A resolution adopted by the extraordinary shareholders' meeting of August 7, 1992, changed the Company's name to ENEL S.p.a. The Company is entered under n. 00811720580 at the Company Register of Rome and is registered at the Rome R.E.A. under n. 756032.*



# Regulation of the meetings of the shareholders of Enel SpA

(Text of the Regulation approved  
by the ordinary shareholders' meeting  
of May 25, 2001)

## SECTION I - PRELIMINARY PROVISIONS

### Object

#### *article 1*

1.1 This regulation shall govern the ordinary and extraordinary meetings (the "Meeting" or the "Meetings") of the shareholders and, when compatible, the meetings of the bondholders, of ENEL S.p.a. ("ENEL").

1.2 This regulation shall be made available to the shareholders at ENEL's registered office and at the venues where the Meetings are to be held.

## SECTION II - QUORUM

### Participation and attendance

#### *article 2*

2.1 Shareholders and others entitled to vote may participate in Meetings.

2.2 Executives and other employees of ENEL or Group companies may participate in Meetings, as well as other persons whose participation the chairman considers useful in connection with the matters to be discussed or for conducting the Meeting.

2.3 Experts, financial analysts and accredited journalists may attend the Meetings with the consent of the chairman.

2.4 Before introducing the matters on the agenda, the chairman shall inform the shareholders of the persons indicated in paragraphs 2 and 3 of this article who are participating or are merely attending.

### Verification of the right to participate in Meetings and access to Meeting premises

#### *article 3*

3.1 Verification of the right to participate in Meetings and vote shall begin at the venue where a Meeting is to be held at least one hour before the Meeting is to begin, unless a different time is indicated in the Meeting notice.

3.2 Those entitled to participate in Meetings and vote must show identification and the certification indicated in the Meeting notice to the auxiliary personnel at the entrance to the premises where the Meeting is to take place. The auxiliary personnel shall issue a special document, which is to be kept for as long as the Meeting lasts.

3.3 Such participants who for any reason leave the premises where the Meeting is being held must notify the auxiliary personnel.

3.4 In order to facilitate verification of their right to participate in a Meeting, shareholders

and others entitled to vote may have the documentation confirming such right delivered to ENEL's Department of Corporate Affairs according to the procedures and by the deadlines contained in the Meeting notice.

3.5 In order to facilitate verification of their representative powers, those intending to participate in a Meeting as the representatives of shareholders or of other persons entitled to vote may have the documentation confirming such powers delivered to ENEL's Department of Corporate Affairs according to the procedures and by the deadlines contained in the Meeting notice.

3.6 Unless the chairman decides otherwise, no cameras, video equipment or similar devices, or recording instruments of any kind, may be used on the premises where a Meeting is being held. In the event the chairman authorizes the use of such devices, he or she shall determine the conditions and limits thereof.

#### **Quorum and call to order**

##### *article 4*

4.1 At the time stated in the Meeting notice, the person specified by the Bylaws shall take the chair of the Meeting.

4.2 The chairman shall be assisted by a secretary, who may be a person other than a shareholder, appointed by the shareholders upon the chairman's proposal. The chairman may request the assistance of the secretary even when the drafting of the minutes is entrusted to a notary public. The secretary and the notary public may appoint assistants and may make use of audio and/or video recording devices only as personal aids in preparing the minutes.

4.3 The chairman may appoint one or more tellers, not necessarily shareholders, and set up a chair's staff.

4.4 To maintain order, the chairman shall make use of specially designated auxiliary personnel provided with special identification badges.

4.5 The chairman may call for assistance on the persons authorized to participate in the Meeting, including instructing them to introduce the matters on the agenda and to reply to questions regarding determined matters.

4.6 The chairman may also call for assistance on specially invited external experts.

4.7 The chairman shall resolve any disputes regarding the right to participate and vote, including cases brought to his attention by the auxiliary personnel.

4.8 The chairman shall announce how many shareholders and other persons entitled to vote are present, as well as the capital share they represent. Having ascertained that there is a quorum, the chairman shall call the meeting to order.

4.9 If a quorum is not reached after no less than one hour has passed from the time set for the Meeting to begin, the chairman shall announce the fact and postpone consideration of the matters on the agenda until the subsequent call.

### SECTION III - DISCUSSION

#### Agenda

##### *article 5*

5.1 The chairman and, at his or her request, those who assist him or her in accordance with article 4, paragraph 5 of this regulation, shall introduce the matters on the agenda and the proposals submitted to the shareholders for approval. Unless the Meeting is opposed, the chairman may have the aforesaid matters and proposals considered in a different order from the one stated in the Meeting notice and may have all or some of the matters on the agenda discussed at the same time.

#### Speaking from the floor and rejoinders

##### *article 6*

6.1 The chairman shall conduct the discussion, giving the floor to the Directors, the Statutory Auditors and those who request it in accordance with this article.

6.2 All those entitled to vote and the common representative of the bondholders may request the floor to speak on the matters under discussion only once, making observations and requesting information. Those entitled to vote may also make proposals. Requests for the floor may be presented from the time the quorum is determined until the chairman closes the discussion of the matter concerned. In order to ensure the orderly conduct of the Meeting, the chairman shall have the power to set, at the beginning of or during the discussion of each matter, a deadline for the presentation of requests for the floor.

6.3 The chairman shall establish the rules for requesting and using the floor, as well as the order in which participants obtain the floor.

6.4 The chairman and, at his or her request, those who assist him or her in accordance with article 4, paragraph 5 of this regulation, shall reply to participants who speak on matters being discussed after all of them have spoken or after each one has spoken.

6.5 Those who have requested the floor shall be entitled to a brief rejoinder.

6.6 Taking into account the nature and the importance of the specific matters under discussion, as well as the number of those requesting the floor, the chairman shall predetermine the time limits for speaking from the floor and for rejoinders - normally no more than ten minutes for the former and five minutes for the latter - in order to ensure that the Meeting be able to conclude its business at one sitting. When such time is about to run out, the chairman shall request whoever has the floor to conclude.

6.7 When all participants requesting the floor have spoken and the replies and, if any, the rejoinders are over, the chairman shall declare the discussion closed.

## **Suspension and adjournment of Meetings**

### *article 7*

7.1 While the Meeting is in progress, the chairman may briefly suspend the same if he or she deems it advisable and explains his or her decision.

7.2 Subject to the provisions of section 2374 of the Civil Code, by a resolution of the majority of the share capital represented, adopted upon proposal of the chairman or of participants representing at least 1% of the share capital, the shareholders may decide to adjourn the Meeting, setting the venue, date and time for the continuation thereof within a period that is appropriate with respect to the reasons for the adjournment and, in any event, is no longer than thirty days.

## **Powers of the chairman**

### *article 8*

8.1 In order to guarantee the proper conduct of business and the exercise of participants' rights, the chairman may deny the floor in the event a participant speaks without being entitled to do so or continues to speak after the predetermined time limit has expired.

8.2 After calling the speaker to order, the chairman may deny the floor to the former in cases of manifest irrelevance of what is being said to the matter under discussion.

8.3 The chairman may deny the floor in all cases in which the participant speaking utters unbecoming or offensive expressions, behaves similarly, makes threats, or instigates violence and disorder.

8.4 In the event one or more participants prevent others from discussing or by their behavior create a situation that clearly hinders the regular conduct of the Meeting, the chairman shall call them to order and to observance of the regulation. In case such call is to no avail, the chairman may expel previously warned persons from the Meeting premises for the entire duration of the discussion.

## **SECTION IV - VOTING**

### **Preliminary operations**

### *article 9*

9.1 Before calling for a vote, the chairman shall allow any participants who may have been expelled under article 8 of this regulation to return to the Meeting.

9.2 The chairman may instruct the entitled participants to vote on the matters on the agenda at the end of the discussion of each matter or at the end of the discussion of all or several of the matters.

## **Voting**

### *article 10*

10.1 The chairman shall decide the order in which proposed resolutions on the separate matters on the agenda are put to a vote, normally giving precedence to those proposed, if any, by the Board of Directors.

10.2 The chairman shall decide the procedure for expressing, recording and counting votes and may set a time limit by which votes must be expressed.

10.3 Votes expressed with procedures other than those indicated by the chairman shall be null and void.

10.4 Shareholders who vote against or abstain must give their name to the auxiliary personnel.

10.5 When voting is over, the votes shall be counted, after which the chairman - who may be assisted by the secretary or the notary public – shall inform the Meeting of the results thereof.

## **SECTION V - TERMINATION**

### **Termination of the Meeting**

#### *article 11*

11.1 When all the matters on the agenda have been discussed and voted upon, the chairman shall terminate the Meeting.

## **SECTION VI - FINAL PROVISIONS**

### **Final provisions**

#### *article 12*

12.1 In addition to the provisions of this regulation, the chairman may adopt all measures deemed advisable in order to guarantee the proper conduct of the Meeting and the exercise of participants' rights.

12.2 All matters not provided for in this regulation shall be subject to the provisions of the Civil Code, applicable statutes and ENEL's bylaws.

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## **EXHIBIT 8.1**

### **8. List of subsidiaries of the registrant**

The following is a list of our subsidiaries. The jurisdiction of incorporation of these subsidiaries is Italy, unless otherwise indicated in the “Registered office” column.



Company name	Registered Office	Activity	Held by
Agassiz Beach LLC	Minnesota -USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Agricola Rio Sahuil Ltda	Santiago (Chile)	Electricity generation from renewable sources	Agricola Y Constructora Rio Guanehue SA
Agricola Y Constructora Rio Guanehue SA	Santiago (Chile)	Electricity generation from renewable sources	Empresa Electrica Panguipulli SA Energia de Los Lagos Ltda
Ape Gruppo Enel SpA	Rome	Personnel administration activities	Enel SpA CISE Srl
Aquenergy Systems Inc.	South Carolina - USA	Electricity generation from renewable sources	Consolidated Hydro Southeast Inc.
Asotin Hydro Company Inc.	Delaware -USA	Electricity generation from renewable sources	CHI Energy Inc.
Autumn Hills LLC	Minnesota -USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Avisio Energia SpA	Trento	Gas distribution	Enel Distribuzione Gas SpA
Aziscohos Hydro Company Inc.	Delaware -USA	Electricity generation from renewable sources	CHI Energy Inc.
Beaver Falls Water Power Company	Pennsylvania - USA	Electricity generation from renewable sources	Beaver Valley Holdings Ltd.
Beaver Valley Holdings Ltd	Pennsylvania - USA	Electricity generation from renewable sources	Hydro Development Group Inc.
Beaver Valley Power Company	Pennsylvania - USA	Electricity generation from renewable sources	Hydro Development Group Inc.
Bedard Electrics Inc.	New York –USA	Electricity generation from renewable sources	Hydro Development Group Inc.
BioEnergy Srl	Albino (Bergamo)	Electricity generation from renewable sources	Powerco SpA
Boott Hydropower Inc.	Massachusetts - USA	Electricity generation from renewable sources	CHI Energy Inc.
Brindisipower Srl	Brindisi	Electricity generation from renewable sources	Powerco SpA
Camuzzi Gazometri SpA	Milan	Natural gas distribution and sales; waste management	Enel SpA
Canastota Wind Power LLC	Delaware - USA	Electricity generation from renewable sources	Essex Company
Carbones Colombianos del Cerrejon SA	Bogotá (Colombia)	Exploitation of coal mines	Pragma Energy SA
Carbonpower Srl	Brindisi	Electricity generation from renewable sources	Powerco SpA

Celabi Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	Dowill Finance Company
Central American Power Services Inc.	Connecticut - USA	Electricity generation from renewable sources	EGI Ltd
CESI – Centro Elettrotecnico Sperimentale Italiano Giacinto Motta SpA	Milan	Research and testing	Enel SpA Eurogen SpA T.E.R.NA. SpA Interpower SpA
CHI Acquisitions Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI Acquisitions II Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Argentina USA Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI Black River Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Canada Inc.	Québec - Canada	Electricity generation from renewable sources	CHI Finance Inc.
CHI Dexter Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Energy Inc.	Connecticut - USA	Electricity generation from renewable sources	Enel Green Power International SA
CHI Finance Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI Hydroelectric Company Inc.	Newfoundland - Canada	Electricity generation from renewable sources	CHI Canada Inc.
CHI Highfalls Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Idaho Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
CHI Magic Valley Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
CHI Minnesota Wind LLC	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Mountain States Operations Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
CHI Operations Inc.	Delaware – USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI Patagonia Inc.	Delaware – USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Phillippines Inc.	Delaware – USA	Electricity generation from renewable sources	CHI Finance Inc.
CHI Power Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI Power Marketing Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.

CHI Universal Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
CHI West Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
CHI Western Operations Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Climare Scrl	Sestri Levante (Genoa)	Energy services	Enel Distribuzione SpA
Concert Srl	Rome	Product, plant and equipment certification	Enel Produzione SpA CESI SpA
Coneross Power Corporation Inc.	South Carolina - USA	Electricity generation from renewable sources	Aquenergy Systems Inc.
Conexion Energetica Centroamericana SA	Guatemala	Electricity generation from renewable sources	EGI Guatemala SA Mesoamerica Power Development Ltd
Conexion Energetica Centroamericana El Salvador SA	San Salvador (El Salvador)	Electricity generation from renewable sources	Grupo EGI SA de cv EGI Holdco El Salvador SA de cv
Conphoebus SpA	Catania	Research in the renewable sources sector	Enel SpA
Consolidated Hydro Mountain States Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Consolidated Hydro New Hampshire Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Universal Inc.
Consolidated Hydro New York Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
Consolidated Hydro Southeast Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
Consolidated Hydro Vermont Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
Consolidated Pumped Storage Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
Consolidated Pumped Storage Arkansas Inc.	Delaware - USA	Electricity generation from renewable sources	Consolidated Pumped Storage Inc.
Constructora Cerro Pitren Ltda	Santiago (Chile)	Electricity generation from renewable sources	Agricola Y Constructora Rio Guanehue SA
Coosa Pines Energy LLC	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Coosa Pines Energy Holdings LLC	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Cosid SpA	Rome	Gas distribution	Enel SpA
Crosby Drive Investments Inc.	Massachusetts - USA	Electricity generation from renewable sources	Asotin Hydro Company Inc.
Ctida Srl	Milan	Engineering, water systems	Enel.Hydro SpA

Dalmazia Trieste SpA	Rome	Real estate management	Enel SpA Sei SpA
Data Gas Srl	Rome	Gas distribution	Cosid SpA S.C.C. Srl Vampa Gas SpA
Deval SpA	Aosta	Electricity distribution in Valle D'Aosta	Enel SpA
Dowill Finance Company	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Chile Ltd
Eagle & Phenix Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Echo Summit Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Ecogas Srl	Milan	Electricity generation from renewable sources	Powerco SpA
EGI Ltd	Hamilton (Bermuda)	Electricity generation from renewable sources	Enel Green Power International SA
EGI Chile Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Ltd
EGI Costa Rica Viento SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	Energia Global de Costa Rica SA
EGI Guacimo Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Ltd
EGI Guatemala SA	Guatemala	Electricity generation from renewable sources	Mesoamerica Power Development Ltd EGI Ltd
EGI Holdco El Salvador SA de cv	San Salvador (El Salvador)	Electricity generation from renewable sources	Mesoamerica Power Development Ltd EGI Ltd
EGI Jimenez Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Ltd
EGI Project Services SA	Guatemala	Electricity generation from renewable sources	EGI Guatemala SA Mesoamerica Power Development Ltd
Electra de Viesgo SL	Santander (Spain)	Electricity sector holding company	Enel Produccion Espana SL Enel Distribucion & Trading SL
Electrificadora Ecologica SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	ZMZ General SA
Elettroambiente SpA	Rome	Electricity generation from waste	Enel SpA

Empresa Electrica Panguipulli SA	Santiago (Chile)	Electricity generation from renewable sources	Energia de Los Lagos Ltda Energia Alerce Ltda
Empresa Electrica Puyehue SA	Santiago (Chile)	Electricity generation from renewable sources	Energia de Los Lagos Ltda Energia Alerce Ltda
Enel Capital SpA	Milan	Venture capital	Enel SpA CISE Srl
Enel Distribucion & Trading SL	Barcelona (Spain)	Electricity distribution	Enel Distribuzione SpA
Enel Distribuzione SpA	Rome	Electricity distribution	Enel SpA
Enel Distribuzione Gas SpA	Rome	Gas distribution	Enel SpA
Enel.Factor SpA	Rome	Factoring	Enel SpA
Enel Finance International SA	Luxembourg	Finance	Enel Produzione SpA Enel Distribuzione SpA
Enel.FTL SpA	Rome	Fuel trading and logistics	Enel SpA Enel Produzione SpA CISE Srl
Enel Green Power SpA (previously called Erga SpA)	Pisa	Electricity generation from renewable sources	Enel SpA
Enel Green Power International SA (previously called Enel Green Power Holding SA)	Luxembourg	Holding of foreign companies operating in the electricity generation from renewable sources	Enel Green Power SpA Enel Investment Holding BV
Enel Holding Luxembourg SA	Luxembourg	Finance	Enel Investment Holding BV
Enel.Hydro SpA	Seriate (Bergamo)	Engineering, water systems	Enel SpA
Enel Investment Holding BV	Amsterdam (Holland)	Holding company	Enel SpA
Enel Ireland Finance Ltd	Dublin (Ireland)	Finance	Enel Produzione SpA Enel Distribuzione SpA
Enel.it SpA	Rome	Information technology	Enel SpA CISE Srl
Enel Logistica Combustibili SpA	Rome	Fuel logistics	Enel SpA
Enelpower SpA	Milan	Engineering and contracting	Enel SpA CISE Srl
Enelpower Contractor and Development Saudi Arabia Ltd	Riyadh (Saudi Arabia)	Power plant construction, management and maintenance	Enelpower SpA
Enelpower do Brasil Ltda	Rio de Janeiro (Brasil)	Engineering and contracting	Enelpower SpA
Enelpower UK Ltd	London (United Kingdom)	Engineering and contracting	Enelpower SpA

Enel Produccion Espana SL	Barcelona (Spain)	Electricity generation	Enel Produzione SpA
Enel Produzione SpA	Rome	Electricity generation	Enel SpA
Enel.Re Ltd	Dublin (Ireland)	Reinsurance	Enel Holding Luxembourg SA
Enel Real Estate SpA (previously called Sei SpA)	Rome	Real estate and facility management	Enel SpA Enel.Hydro SpA
Enel Service UK Ltd	London (United Kingdom)	Services	Enel.FTL SpA
Enel.si - Servizi integrati SpA	Rome	Engineering and energy related services	Enel SpA CISE Srl
Enel Trade SpA	Milan	Sale of electricity	Enel SpA
Enel Vendita Gas SpA	Rome	Sale of gas	Enel SpA
Energia Alerce Ltda	Santiago (Chile)	Electricity generation from renewable sources	Jeffco Ltd Dowill Finance Company
Energia de Los Lagos Ltda	Santiago (Chile)	Electricity generation from renewable sources	Energia Alerce Ltda Jeffco Ltd
Energia Global SA de cv	Connecticut - USA	Electricity generation from renewable sources	EGI Ltd
Energia Global de Costa Rica SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	EGI Ltd
Energy Cost Control Srl	Rome	Electricity generation from renewable sources	Powerco SpA
Essex Company	Massachusetts - USA	Electricity generation from renewable sources	CHI Energy Inc.
ESTEL SpA	Trieste	Telecommunications	WIND SpA
Florence Hills LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Fulcrum Inc.	Idaho - USA	Electricity generation from renewable sources	Consolidated Hydro Mountain States Inc.
Generadora de Occidente Ltda	Guatemala	Electricity generation from renewable sources	EGI Guatemala SA Mesoamerica Power Development Ltd
Grupo EGI SA de cv	San Salvador (El Salvador)	Electricity generation from renewable sources	EGI Holdco El Salvador SA de cv Mesoamerica Power Development Ltd
Grupo EGI Matanzas SA	Guatemala	Electricity generation from renewable sources	Tecnoguat Holdings Ltd Tecnoguat SA
Grupo Hidroverde Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Jimenez Ltd

Hadley Ridge LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Highfalls Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Hope Creek LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Hosiery Mill Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Hydrodev Inc.	Québec - Canada	Electricity generation from renewable sources	CHI Canada Inc.
Hydro Development Group Inc.	New York - USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
Hydro Energies Corporation	Vermont - USA	Electricity generation from renewable sources	CHI Finance Inc.
Hydro Gestioni SpA	Milan	Water sector	Enel.Hydro SpA
Hydro Gestioni Impianti Tecnologici Srl	Milan	Water sector	Enel.Hydro SpA
Idrogest Srl	Cagliari	Water sector	Enel.Hydro SpA
			Enel Green Power SpA
Impregest Srl	Rome	Gas distribution	Enel Distribuzione Gas SpA
Interpower SpA	Rome	Electricity generation	Enel SpA
Iroquorp Ltd	New York - USA	Electricity generation from renewable sources	Hydro Development Group Inc.
Iroquorp Acquisitions Inc.	New York - USA	Electricity generation from renewable sources	Hydro Development Group Inc.
Italia On Line SpA	Milan	Internet services	WIND SpA
IT-net SpA	Rome	Network information systems	WIND SpA
			Mondo WIND Srl
Jack River LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Jeffco Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	Dowill Finance Company
Jessica Mills LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Joseph Hydro Company Inc.	Delaware -USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
Julia Hills LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Kings River Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Kinneytown Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
LaChute Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.

Lawrence Hydroelectric Associates LP	Massachusetts - USA	Electricity generation from renewable sources	Essex Company Crosby Drive Investments Inc.
Les Developpements Hydroelectriques CHI Inc.	Québec - Canada	Electricity generation from renewable sources	CHI Acquisitions Inc.
Littlefield Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
Littleville Power Company Inc.	Massachusetts - USA	Electricity generation from renewable sources	Hydro Development Group Inc.
Lower Saranac Corporation	New York - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Mascoma Hydro Corporation	New Hampshire - USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
Mesoamerica Power Development Ltd	Hamilton (Bermuda)	Electricity generation from renewable sources	EGI Ltd
Metan Gas Sicilia Srl	Rome	Gas distribution	Enel Distribuzione Gas SpA
Metro Wind LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Mill Shoals Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Minnewawa Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.
Mobilmat SpA	Milan	Finance	WIND SpA
Molinos de Viento del Arenal SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	Electrificadora Ecologica SA
Mondo WIND Srl	Rome	Sale of telecommunication products and services	WIND SpA IT-net SpA
North Canal Waterworks	Massachusetts - USA	Electricity generation from renewable sources	Essex Company
Notch Butte Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Operacion Y Mantenimiento Tierras Morenas SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	Electrificadora Ecologica SA
Optigaz Inc.	Québec - Canada	Electricity generation from renewable sources	CHI Canada Inc.
Ottauquechee Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Pelzer Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	Consolidated Hydro Southeast Inc.
P.H. Don Pedro SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	EGI Ltd
P.H. Guacimo SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	EGI Ltd Energia Global de Costa Rica SA

Phoenix Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
P.H. Rio Volcan SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	EGI Ltd
Pioneer Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
Powerco SpA	Brindisi	Electricity generation from renewable sources and high-tech application	Elettroambiente SpA Enel SpA
Pragma Energy SA (ex Masfield Coal AG)	Lugano (Switzerland)	Coal trading	Enel.FTL SpA
Pragma Energy Services Ltd (ex Atezada Services Ltd)	London (United Kingdom)	Administrative services	Pragma Energy SA
Ruthton Ridge LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
S.A.M.I.G. Srl	L'Aquila	Services	Enel Distribuzione Gas
S.C.C. Srl	Rome	Gas distribution	Enel SpA
Schoolfield Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Sfera - Società per la formazione e le risorse aziendali SpA	Rome	Human resources	Enel SpA Enel Produzione SpA Enel Distribuz. SpA T.E.R.NA. SpA Enelpower SpA Enel Green Power SpA Sei SpA Enel.Hydro SpA
Sheldon Vermont Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Slate Creek Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
So.l.e.- Società luce elettrica SpA Gruppo Enel	Rome	Public lighting systems	Enel SpA CISE Srl
So.l.e. Milano H Srl	Rome	Construction of public lighting systems	So.l.e. SpA
Soliloquoy Ridge LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Somersworth Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Universal Inc.
Southwest Transmission LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Spartan Hills LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Summit Energy Storage Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Energy Inc.

Summit Finance Inc.	Delaware - USA	Electricity generation from renewable sources	Summit Energy Storage Inc.
Sun River LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Sweetwater Hydroelectric Inc.	New Hampshire - USA	Electricity generation from renewable sources	CHI Acquisitions II Inc.
Tecnoguat SA	Guatemala	Electricity generation from renewable sources	Grupo EGI Matanzas SA Tecnoguat Holdings Ltd
Tecnoguat Holdings Ltd	Georgetown (Cayman Island)	Electricity generation from renewable sources	EGI Ltd
T.E.R.NA. –Trasmissione Eletticit� Rete Nazionale SpA	Rome	Ownership and maintenance of the electricity transmission network	Enel SpA
The Great Dam Corporation	Massachusetts - USA	Electricity generation from renewable sources	Lawrence Hydroelectric Associates LP
TKO Power Inc.	California - USA	Electricity generation from renewable sources	CHI West Inc.
Tsar Nicholas LLC	Minnesota -USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
T.S.N. - Transmissora Sudeste Nordeste SA	Rio De Janeiro (Brasil)	Construction, ownership and maintenance of transmission network	Enelpower SpA
Twin Falls Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Twin Lake Hills LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
Vampa Gas SpA	Rome	Gas distribution	Enel SpA
Ware Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Finance Inc.
WEBiz 2 BV	Amsterdam (Holland)	Venture capital	Enel SpA
WEBiz 3 NV	Aartselaar (Belgium)	Venture capital	WEBiz Holding BV WEBiz 2 BV
WEBiz Holding BV	Amsterdam (Holland)	Venture capital	Enel SpA WEBiz2 BV
Western New York Wind Corporation	New York - USA	Electricity generation from renewable sources	CHI Energy Inc.
Willimantic Hydro Company Inc.	Delaware - USA	Electricity generation from renewable sources	CHI Acquisitions Inc.
Willimantic Power Corporation	Connecticut - USA	Electricity generation from renewable sources	Willimantic Hydro Company Inc.
WIND Telecomunicazioni SpA	Rome	Telecommunications	Enel SpA Enel Investment Holding BV

Winter's Spawn LLC	Minnesota - USA	Electricity generation from renewable sources	CHI Minnesota Wind LLC
ZMZ General SA	Santa Ana (Costa Rica)	Electricity generation from renewable sources	EGI Costa Rica Viento SA



## **EXHIBIT 99.1**

**99. Letter of Enel S.p.A. regarding Arthur Andersen.**





Rome, July 1, 2002

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

RE: Release Nos. 33-8070; 34-45590; 35-27503; 39-2395, 1A-2018; IC-25464; FR-62; FILE  
No. S7-03-02 (collectively, the "Release")

Dear Sir or Madam:

In accordance with the Release, you are hereby notified that Enel-Società per Azioni ("Enel") has received from Arthur Andersen S.p.A. representations that (i) the audit of Enel's consolidated financial statements for the year ended December 31, 2001 was subject to the firm's quality control systems for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards, and (ii) there was appropriate continuity of Arthur Andersen S.p.A. personnel working on the audit, availability of U.S. national office consultation, and availability of personnel at foreign affiliates of Arthur Andersen to conduct the relevant portions of the audit.

Very truly yours,



Fulvio Conti  
Chief Financial Officer

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