

# Financial Statements of Enel SpA at December 31, 2005



## ENERGY IN TUNE WITH YOU



The history of Enel is a part of the history of Italy, just as Enel is an expression of the Italian flair for innovation, creativity and “getting the job done” that is so characteristic of the country’s enterprise culture.

Today, however, Enel is even more: an international company that is driven by its values and their application in contexts beyond Italy’s frontiers.

Enel is currently present in eleven countries. In each of these, Enel’s concerns, such as the search for innovation, respect for the environment, ethical and social commitment, technological development and attention for our customers, are expressed differently in the local environment while maintaining their universal significance.

This is how Enel forges and promotes a single corporate identity in its operations around the world while embracing the principles of local integration, knowledge transfer and best practices. These principles are put into action through our most important resource: human capital.

It is to our people that we dedicate the images in this publication, which communicate Enel’s values through true stories and real people. Our thanks go to them, who represent all of those working every day to make the company stand out.

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## Italy

Enel is present around the country with its infrastructure and power plants. Our local roots are also expressed through close cooperation with local communities in promoting tourism, sports and recreation in the areas around our power plants. One example is the hydroelectric facility in Presenzano, which today is integrated with the surrounding territory and available for use by local communities. The power station is host to an Enel Information Center and a Nautical Center. Both permit visitors to plan a learning experience on the operations of a power plant together with sporting activities with highly qualified instructors. Coordinated by the Olympic champion rower Davide Tizzano, the Nautical Center of Presenzano offers young people the chance to train and participate in sports such as rowing, sailing, windsurfing and canoeing.

**Giovanni Topo** Head of the Presenzano Hydroelectric Unit

*“Opening the Presenzano plant to the public through visits, events and competitions enabled us to bring an ever greater number of people, and especially young people, closer to the world of energy and Enel”*



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## The Enel structure

### Corporate Enel SpA

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#### Domestic Generation and Energy Management Division

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- > Enel Produzione <sup>(1)</sup>
- > Enel Trade

#### Domestic Networks and Infrastructure Division

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- > Enel Distribuzione
- > Enel Rete Gas
- > Enel Sole
- > Deval

#### Domestic Sales Division

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- > Enel Distribuzione
- > Enel Gas
- > Enel Energia
- > Enel.si
- > Deval

#### International Division

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- > Viesgo Generación
- > Enel Unión Fenosa Renovables
- > Maritza
- > Enel North America
- > Enel Latin America

- > Viesgo Energía
- > Electrica Banat
- > Electrica Dobrogea
- > Electra de Viesgo Distribución
- > Enel Servicii
- > Enel Viesgo Servicios

#### Services and Other Activities

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- > Enel Servizi (formerly Enel Ape) <sup>(2)</sup>
- > Sfera
- > Dalmazia Trieste
- > Enelpower
- > Enel.NewHydro
- > Enel.Factor
- > Enel.Re

(1) From January 1, 2005 Enel Green Power, Enel Logistica Combustibili and Conphoebus were merged into Enel Produzione.

(2) From January 1, 2005 Enel.It and Enel Facility Management were merged into Enel Servizi (formerly Enel Ape).



## Corporate boards

### Board of Directors

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*Chairman*

Piero Gnudi

*Chief Executive Officer and General Manager*

Fulvio Conti

*Directors*

Giulio Ballio

Augusto Fantozzi

Alessandro Luciano

Fernando Napolitano

Francesco Taranto

Gianfranco Tosi

Francesco Valsecchi

*Secretary*

Claudio Sartorelli

### Board of Auditors

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*Chairman*

Eugenio Pinto

*Auditors*

Carlo Conte

Franco Fontana

*Alternate auditors*

Giancarlo Giordano

Paolo Sbordonì

### Independent auditors

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KPMG SpA

## Powers

**Board of Directors** The Board is vested by the bylaws with the broadest powers for the ordinary and extraordinary management of the Company, and specifically has the power to carry out all the actions it deems advisable to implement and attain the corporate purpose.

### Chairman of the Board of Directors

The Chairman is vested by the bylaws with the powers to represent the Company legally and to sign on its behalf, presides over Shareholders' Meetings, convenes and presides over the Board of Directors, and ascertains that the Board's resolutions are carried out. Pursuant to a Board resolution of November 30, 2005, the Chairman has been vested with a number of additional non-executive powers.

**Chief Executive Officer** The Chief Executive Officer is also vested by the bylaws with the powers to represent the Company legally and to sign on its behalf, and in addition is vested by a Board resolution of November 30, 2005 with all powers for managing the Company, with the exception of those that are otherwise assigned by law or the bylaws or that the aforesaid resolution reserves for the Board of Directors.

## Letter to shareholders and stakeholders



*Dear Enel stakeholder,*

Last year was an extraordinary one for our Company. We completed the disposal of Wind, Terna and other minor operations, in line with our strategy of focusing Enel on electricity and gas. We also continued our drive for international growth, consolidating our positions in European markets. At the same time, we achieved and exceeded all of the operating targets we had set ourselves.

In 2005, EBITDA rose by 10.6% on the previous year (net of the reimbursement of stranded costs in 2004), while consolidated net income jumped by 48%. Thanks to these results, we are able to propose to the Shareholders' Meeting a dividend of €0.44, all from income on ordinary operations, an increase of 22% on the previous year. Together with the interim dividend of €0.19 paid in November, which was paid out of the gain on the disposal of our remaining stake in Terna, shareholders who participated in the "Enel 4" public offering earned a yield of about 9% on the offering price.

The market's confidence in our strategy in the last few years was confirmed by the success of the "Enel 4" operation involving the placement of 9.4% of our stock, which was completed by the Ministry for the Economy and Finance last July.

Having concluded the refocusing of operations on our electricity and gas business, we now turn to continuing the pursuit of our goals of boosting efficiency and expanding in Italy and abroad, with the aim of making Enel a leading player in the European energy market.

We have the human, technical and financial resources to achieve this objective. From the organizational standpoint, we have implemented a new operational structure, with the creation of three divisions (Generation and Energy Management, Networks and Infrastructure, and Sales) focused on the Italian market and a new International Division devoted to managing and developing our foreign operations. With the daily efforts and contribution of ideas and projects provided by the thousands of Enel employees, we intend to be the most efficient producer and distributor of electricity and gas in Italy, consolidating a model of excellence to be exported to the other countries in which we operate. We have also achieved excellence in corporate social responsibility, where the adoption of best international practice in transparency and corporate governance and our environmental policies have been rewarded with our admission to the world's most selective ethical indices, such as the FTSE4Good and the Dow Jones Sustainability Index.

## Generation and Energy Management Division

In 2005 Enel produced 112 TWh of power in Italy (down 11% on 2004). The decline was attributable to less favorable water conditions compared with the previous year and an increase in imports and the output of other generators, which covered the greater power demand in the Italian network. The fuel mix in 2005 saw a further reduction in traditional fuel-oil and gas generation, while the percentage share of coal and combined-cycle gas turbine generation rose.

Our objectives for the future are to maintain our leadership in generation costs and achieve excellence in plant operation. We are continuing our investment plan, which involves the transformation of a number of old fuel-oil fired plants into new and more efficient facilities using combined-cycle gas technology (10 plants have already entered service and another two are under construction) and new technologies for coal-fired generation, with one project now under way at Civitavecchia and another awaiting approval at Porto Tolle. This effort is supplemented by our investment in renewable energy resources, especially new geothermal and wind facilities and the upgrading of our hydro plants. In 2005 a total of 112 MW of additional power entered service, while about €1.3 billion in new investment in development and maintenance is envisaged over the duration of the plan. Enel's objective is to produce at least 30% of our energy using renewable resources. Thanks to this program, which will give us a more balanced fuel mix and more efficient power plants, we will be able to achieve two priority objectives: lowering the cost of energy generated in Italy while at the same time reducing the specific emissions of our facilities.

On the efficiency front, we are continuing our programs to improve plant operations. The projects under way envisage the active involvement and mobilization of all our resources, taking a total quality approach and focusing on operating efficiency and safety. We expect to achieve further reductions in operation and maintenance costs (which have declined by 24% in the last three years, with a target reduction of 4% for 2007), to increase the availability and operational flexibility of plants, to optimize the sales portfolio and to minimize fuel supply costs.

## Networks and Infrastructure Division

As regards the distribution of electricity and gas, in 2005 we achieved significant results despite the reduction in rates introduced with the new regulatory cycle, which came into effect in 2004 and will remain in force until 2007. In addition to ongoing improvements in the quality of electricity distribution, which were recognized and rewarded by the Authority for Electricity and Gas (a reduction in supply interruptions of about 50% since 2001), the Networks and Infrastructure Division developed and implemented efficiency programs that have been translated into improved profitability. The project to replace old meters with the new digital meter is nearing completion. It will conclude in the next year with more than 30 million meters installed. With this investment, one of the largest undertaken in Italy in recent years and the most ambitious project of its kind in the world, we will make substantial savings in customer management. More generally, the program to reduce cash costs per customer

(which measures network operating costs and investment per customer) is about a year ahead of schedule. This enabled us to achieve annual savings in 2005 of about €1 billion with respect to spending in 2002, and we still have room for further reductions on the cost side and have set significant improvement objectives. We are also expecting major operational improvements in the gas network thanks to its growing integration with electricity networks.

## Sales Division

The Sales Division initiated major, innovative sales initiatives benefiting our customers, thus preparing for the full opening of the market scheduled for 2007. As regards our industrial customers, I would like to note the success of our “Sure Price” initiative, a new offer for large customers that enables them to “sterilize” energy costs from fluctuations in fuel prices. Last year also saw the launch of a combined electricity and gas offer for eligible customers in a number of pilot cities, which we plan to expand further in the coming months. The ability to read meters in real time thanks to digital metering technology has made it possible for us to offer customized rate plans, allowing customers who consume most of their electricity in specific periods during the day or week to achieve considerable savings. Finally, we devoted a specific promotional campaign to addressing energy conservation, which is the best contribution that we can make to the overall efficiency of the system.

We want to participate actively in fostering the opening of the electricity market, with the aim of attaining a market share of 30% and serving 12 million free customers by 2010.

In the gas market, in 2005 we consolidated our position as the second largest gas distributor in Italy, with more than 2.1 million customers served.

## International Division

Last year Enel expanded its international position even further, reaching about 3,800 MW of installed capacity, exceeding 13,000 GWh of power generated and serving 2 million customers. In particular, 2005 saw significant developments in Central and Eastern Europe with the acquisition of two distribution networks in Romania and the upcoming acquisition of 66% of Slovenské Elektrárne, the leading Slovakian electricity generator. Close attention is also being devoted to opportunities in the Russian market: in addition to operating a combined-cycle plant in St. Petersburg, Enel signed an agreement to take a stake in RusEnergoSbyt, one of the top electricity traders in the country. Enel is also consolidating its presence in Spain, where Enel Viesgo has launched an investment program totaling more than €1.3 billion to upgrade its generation facilities, and in France, where an agreement with EdF will give us equivalent capacity of up to 1,200 MW and the opportunity to develop an investment in the new EPR reactor together with EdF.

Renewables are also a priority objective in Enel's growth abroad. With installed capacity of more than 1,600 MW, in addition to the more than 15,000 MW of power produced with renewable resources

in Italy, Enel remains one of the world's leading operators in the sector, and new initiatives are planned for North, Central and South America as well as Slovakia and Spain.

## Outlook

The results achieved in 2005 show increased profitability with respect to 2004, thanks in part to the contribution of our international activities.

The efficiency programs and the cost containment initiatives launched in our various business segments and our international growth will continue to have a positive impact in 2006. Profits for the coming year are expected to rise, as is Enel's investment in Italy and abroad.

The Chief Executive Officer

*Fulvio Conti*

A handwritten signature in blue ink, appearing to read 'F. Conti', with a horizontal line extending from the end.

## Summary of the resolutions of the ordinary and extraordinary Shareholders' Meetings

The Shareholders' Meeting of Enel SpA held in Rome on May 26, 2006 at the Enel Conference Center at 125, Viale Regina Margherita, adopted the following resolutions during the ordinary session (on second call):

1. approved the financial statements of Enel SpA for the year ended December 31, 2005; and took note of the results of the consolidated financial statements of the Enel Group, also for the year ended December 31, 2005, which closed with net income for the year of €3,895 million;
2. resolved, with regard to the allocation of net income for 2005 and the distribution of available reserves:
  - > with regard to Enel SpA's net income for the year 2005, amounting to €2,714,880,591.03 to:
    - a) earmark for distribution to Shareholders:
      - €0.19 for each of the 6,154,857,239 ordinary shares in circulation on the ex-dividend date to cover the interim dividend payable from November 24, 2005 after coupon no. 6 had gone ex-dividend on November 21, 2005, amounting to a total of €1,169,422,875.41;
      - €0.25 for each of the ordinary shares in circulation on June 19, 2006, the scheduled ex-dividend date, as the balance of the dividend, amounting to:
        - a minimum total sum – which takes into account the 6,166,984,541 shares in circulation on March 22, 2006 – of €1,541,746,135.25;
        - a maximum total sum – which takes into account the 6,181,364,565 shares potentially in circulation on the aforesaid ex-dividend date – of €1,545,341,141.25;
    - b) earmark for "retained earnings" the remaining part, amounting to:
      - a maximum sum – which takes into account the 6,166,984,541 shares in circulation on March 22, 2006 – of €3,711,580.37;
      - a minimum sum – which takes into account the 6,181,364,565 shares potentially in circulation on the aforesaid ex-dividend date – of €116,574.37;
  - > to also earmark for distribution to the Shareholders €0.19 for each of the ordinary shares in circulation on June 19, 2006, the scheduled ex-dividend date, as part of the distributable reserve called "retained earnings" recorded in Enel SpA's financial statements, amounting to:
    - a minimum total sum – which takes into account the 6,166,984,541 shares in circulation on March 22, 2006 – of €1,171,727,062.79;
    - a maximum total sum – which takes into account the 6,181,364,565 shares potentially in circulation on the aforesaid ex-dividend date – of €1,174,459,267.35;
  - > to pay before withholding tax, if any, and for each of the ordinary shares in circulation on the ex-dividend date, the total dividend of €0.44 – of which €0.25 as distribution of the balance of the net income for the year 2005 and €0.19 as partial distribution of the distributable reserve called "retained earnings" – as from June 22, 2006, with the ex-dividend date of coupon no. 7 falling on June 19, 2006;

3. approved the 2006 stock option plan for the executives of Enel SpA and/or subsidiaries thereof pursuant to Article 2359 of the Civil Code, vesting the Board of Directors with all the powers necessary for concretely implementing such Plan.

In the extraordinary session (on third call), the Shareholders also resolved:

1. to delegate to the Board of Directors for five years the power to increase the share capital by a maximum amount of €31,790,000 in connection with the 2006 stock option plan, as approved in the ordinary session;
2. to approve an addition to article 20 of the corporate bylaws, aimed at vesting the Board of Directors with the powers of appointing, and revoking the appointment of, the executive in charge of preparing the corporate accounting documents, after the Board of Statutory Auditors has expressed its opinion.

## Enel and the financial markets

### Main data by share and capitalization

	2005	2004
Dividend per share (euro)	0.63 <sup>(1)</sup>	0.69
Share price – 12-month high (euro)	7.48	7.25
Share price – 12-month low (euro)	6.32	5.21
Average share price in December (euro)	6.75	7.07
Market capitalization <sup>(2)</sup> (millions of euro)	41,543	43,155
No. of shares outstanding at December 31 (millions)	6.157	6.104

(1) Dividend proposed by the Board of Directors on March 22, 2006 equal to €0.44 per share as the balance on the 2005 dividend (in addition to the €0.19 paid as an interim dividend in November 2005).

(2) Calculated on average share price in December.

### Other financial indicators

	Current <sup>(1)</sup>	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Enel stock weighting in:				
> MIB30 Index	8.65%	8.75%	10.46%	8.58%
> FT-SE E300 Electricity Index	20.37%	23.22%	28.12%	15.75%
<b>Rating</b>	<b>Current <sup>(1)</sup></b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>	<b>Dec. 31, 2003</b>
Standard & Poor's	Outlook Negative	Stable	Stable	Negative
	Medium/long-term A+	A+	A+	A+
	Short term A-1	A-1	A-1	A-1
Moody's	Outlook Stable	Stable	Stable	Negative
	Medium/long-term Aa3	Aa3	A1	A1
	Short term P-1	P-1	P-1	P-1

(1) At February 28, 2006.



Last year was marked by the broadly positive performance of stock markets, continuing the rising trend that began in 2004, notably in the Euro area. Especially strong gains were posted in the United Kingdom (FSTE-100: +19%), France (CAC-40: +22%) and Germany (DAX: +26%).

In Italy, stock market yields were in line with those registered in 2004, with the S&P MIB Index gaining more than 14%.

In the final part of the year, rising interest rates and, in Italy, political and regulatory uncertainty had an adverse impact on the utilities sector. Against this background, Enel stock slipped to a 12-month low at €6.32 in October. At the end of the year, the share price stood at €6.63, down 4.8% on the previous year.

In addition, in July 2005 the Ministry for the Economy and Finance (MEF) placed a further 575 million shares. After the sale, at December 31, 2005 the MEF held 21.4% of Enel, while Cassa Depositi e Prestiti (CDP) held 10.2% and the market the remaining 68.4%. The breakdown takes account of the bonus shares distributed in December in relation to the third offering of Enel shares. The placement of the fourth offering of Enel shares by the MEF envisages the award of bonus shares, which will be distributed in July 2006 to eligible shareholders.

The year also saw the completion of the process of refocusing on Enel's core energy business with the deconsolidation of its stakes in Wind and Terna.

Following the transfer of Enel's share of Terna to Cassa Depositi e Prestiti (about 30%), the Board of Directors approved the payment of an interim dividend for 2005 of €0.19 per share which occurred on November 24, 2005.

In addition to the interim dividend, Enel also paid an ordinary dividend on 2004 earnings of €0.36, paid in June, bringing total dividends paid out in 2005 to €0.55 per share.

The yield came to 8.3%, making Enel shares a highly attractive investment.

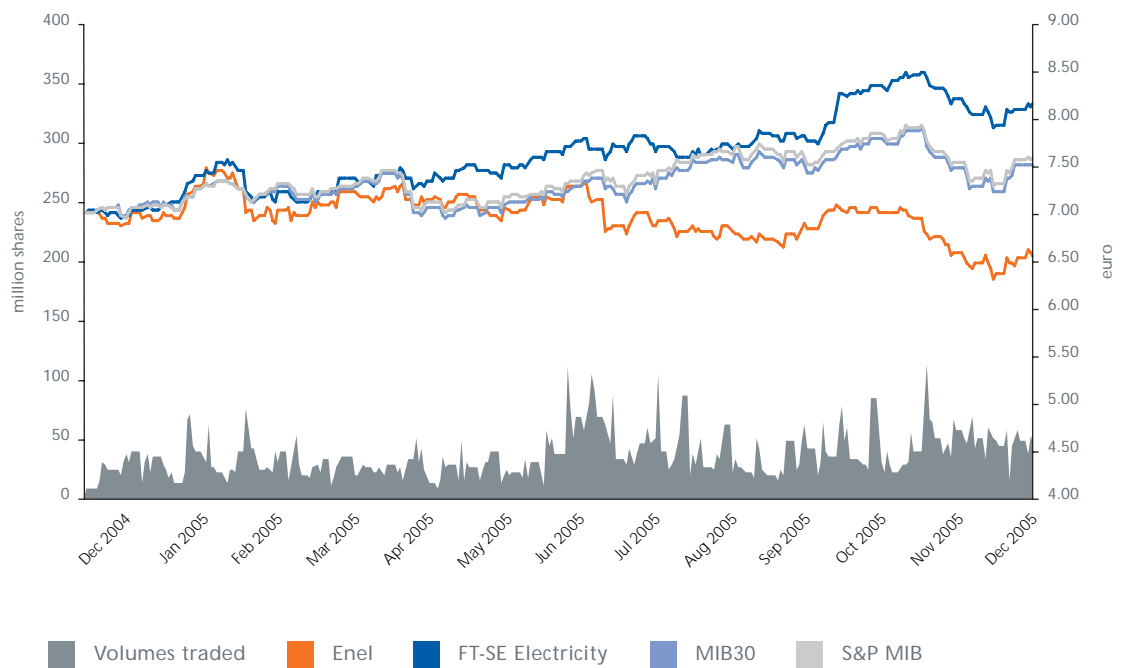
Average daily trading volume in Enel stock was 40.6 million shares, compared with 38.2 million in 2004, a rise of about 6%.

For further information we invite you to visit the Investor Relations section of our corporate website ([http://www.enel.it/azienda\\_en/investor\\_relations/notizie\\_mercati](http://www.enel.it/azienda_en/investor_relations/notizie_mercati)), which contains:

- > financial data, presentations, on-line updates on the share price;
- > information on corporate bodies and the regulations of shareholders' meetings;
- > periodic updates on corporate governance issues.

We also created a contact center for private investors (which can be reached by phone at +39 (06) 8305 2081 or by e-mail at [azionisti.retail@enel.it](mailto:azionisti.retail@enel.it)) and for institutional investors (phone: +39 (06) 8305 7008, e-mail: [investor.relations@enel.it](mailto:investor.relations@enel.it)).

Performance of the Enel share price and the MIB30, S&P MIB and FT-SE E300 Electricity Indices (daily trading volume/listed price) – December 2004 to December 31, 2005





## Bulgaria

Enel was the first foreign company to enter the energy market in Bulgaria, stabilizing its presence with a majority stake in the Maritza East III Power Company. This gave Enel control of one of the main power plants in the country, a lignite-fired 840 MW facility.

After the acquisition, Enel undertook an investment program aimed at modernizing the plant and bringing it up to European environmental standards.

The modernization project was accompanied by initiatives to involve and leverage the resources who work at the Maritza plant, seeking to ensure that people with different skills would be open to change and share the same company values and goals.

**Kossara Marchinkova** Head of Human Resources, Maritza East III Power Company

*"I work every day with people so that they can express their skills and abilities to the greatest extent possible"*

## REPORT ON OPERATIONS

### Overview

As an industrial holding company, Enel SpA defines strategic targets for the Group and coordinates the activities of its subsidiaries and associates.

In addition, Enel SpA manages treasury operations and insurance risk coverage, providing assistance and guidelines on organizational, personnel management and industrial relations, accounting, administrative, tax, legal and corporate matters.

Enel has two contracts for the long-term import of electricity from France and Switzerland. The power covered by these contracts was sold to the Single Buyer at a price set by the Ministry for Productive Activities and used to supply the regulated market.

In December 2005, Italian and French authorities adopted a number of measures regarding the management of long-term import contracts. They regard:

- > the modification of the procedures for setting the price of electricity sold by Enel to the Single Buyer;
- > the procedure for allocating interconnection capacity to enable performance of the long-term contracts.

As regards the first point, up until December 31, 2005, the sale price was equal to a component equal to the cost of fuel (Ct) prevailing in the quarter from October to December 2003, updated to take account of changes in fuel prices on the basis of criteria established by the Authority for Electricity and Gas (the Authority). With a decree dated December 13, 2005, the Ministry for Productive Activities, responding to requests from the Authority and the Single Buyer, modified the criteria for setting the sale price, replacing the value of the PGt component with a maximum price of €66/MWh. The Authority may also reduce that amount in the event of reductions in fuel costs with respect to the scenarios envisaged at the time the price ceiling was established.

As regards interconnection capacity allocation, with its decision of December 1, 2005 the French regulator (CRE) decided that it would not reserve any capacity for the performance of the long-term contract, thereby modifying previous practice, which had envisaged the allocation of 50% of the interconnection capacity required to perform long-term contracts to the Italian ISO and 50% to foreign ISOs. Enel has appealed the decision to the French Administrative Court. Pending a decision on the appeal, Enel is selling part of the electricity under the contract abroad.

## Significant events in 2005

### Acquisition of Slovenské Elektrárne

On February 17, 2005 Enel agreed to acquire 66.0% of Slovenské Elektrárne (SE). SE has a generation capacity of about 7,000 MW (83% of Slovakia's installed capacity), well balanced between thermal, hydro and nuclear power, with very competitive generation costs. The price for the holding is €840 million, on which Enel has made a deposit of €168 million. The operation is expected to be completed by the end of the first half of 2006.

**€1 billion bond issue** The €1 billion public offer of Enel bonds reserved to Italian investors closed early on March 8, 2005. The issue is part of Enel's debt refinancing program and consists of two bonds, both with a 7-year maturity, of which €600 million issued at an annual fixed rate of 3.625%, and €400 million at a floating rate equal to six-month Euribor plus a spread of 10 basis points. Both are repayable in full on March 14, 2012.

**Sale of stake in Terna** In line with the statutory requirement to reduce Enel's holding in Terna below 20% by July 1, 2007, Enel SpA, after having placed 50% of the company in 2004, finalized a further two disposals amounting to 43.85% of Terna's capital.

On March 31, 2005, at the end of an accelerated bookbuilding procedure for Italian and foreign institutional investors, Enel sold 13.86% of Terna for €568 million. The transaction was settled with the delivery of the securities and payment of the price on April 5, 2005.

On May 24, 2005, Enel SpA agreed to sell a 29.99% stake in Terna to Cassa Depositi e Prestiti SpA. On September 15, 2005, following receipt of authorization from the Competition Authority, Enel SpA closed the sale of 29.99% of Terna to Cassa Depositi e Prestiti, thereby reducing its holding in the company to 6.14%. The price of the stake, calculated as the weighted average of official prices of Terna stock in the period preceding the sale, was €1,315 million.

Following the exercise in January 2006 of bonus share rights by the participants in the Terna public offering in June 2004, Enel's holding in Terna decreased to 5.12%.

### Agreement to develop geothermal in Chile

In April 2005, as part of its international growth strategy, Enel reached agreement with Chile's Empresa Nacional del Petróleo (ENAP), one of the largest energy companies in Latin America and the leader in Chile, on a plan to develop geothermal exploration projects with a view to generating electricity in the center and south of the country. The joint venture will explore the geothermal resources in the Calabozo and Chillan concessions, with a goal of developing up to 300 MW of new geothermal capacity over the next seven years.

**Disposal of Enel.Hydro** On May 10, 2005, Enel concluded the sale to Compagnie Générale des Eaux SA, a water industry holding company of the Veolia Environment Group, of a 100% stake in Enel.Hydro, which holds Enel's interests in the water sector in the Calabria region and in the Latina province, in addition to a 20% stake in Idrosicilia. The price for the sale amounted to about €36 million.

#### **Appointment of new Board of Directors**

On May 26, 2005, the Enel Shareholders' Meeting appointed the new Board of Directors, whose term will expire with the approval of the 2007 financial statements. The Board of Directors is formed by Piero Gnudi, confirmed as Chairman, Fulvio Conti, appointed Chief Executive Officer and General Manager, Giulio Ballio, Augusto Fantozzi, Alessandro Luciano, Fernando Napolitano, Francesco Taranto, Gianfranco Tosi and Francesco Valsecchi. The Shareholders' Meeting also appointed Eugenio Pinto as Chairman of the Board of Auditors following the resignation of Angelo Provasoli and renewed the auditing engagement of KPMG SpA for the 2005-2007 period.

#### **Cooperation agreement between Enel and EdF**

On May 30, 2005, Enel and EdF signed a Memorandum of Understanding for the joint development of new generation EPR (European Pressurized Reactor) nuclear power plants. Under the program, Enel and EdF will cooperate in the construction, implementation and operation of an EPR nuclear program in France, expected to become operational by 2012. Enel will have a 12.5% share in the generation capacity of nuclear plants developed. The agreement also provides for the early access by Enel, starting in January 2006, to nuclear power capacity available in France. The obligations of the parties under the agreement are still being negotiated.

#### **Fourth placement of Enel shares**

The fourth placement of Enel shares was concluded on July 7, 2005. A total of 500 million shares were allocated to the public and institutional investors, in addition to the full exercise of the greenshoe option, which accounted for the placement of a further 75 million shares. The price of the shares to institutional investors was set at €7.18 per share, while the price for the general public was equal to €7.07 per share, generating net proceeds for the Ministry for the Economy and Finance of about €4 billion.

#### **Sale of stake in Wind**

On August 11, 2005 Enel and Weather Investments Srl, a company controlled by the businessman Naguib Sawiris, completed the formalities envisaged for the first phase of the sale of a stake in Wind Telecomunicazioni SpA to Weather, as provided for in the agreements reached on May 26, 2005 and following approval by the competent authorities.

Specifically, Enel SpA sold a 62.75% stake in Wind held by Enel Investment Holding BV to a subsidiary of Weather for €2,986 million.

Sawiris had previously sold to another subsidiary of Weather a stake of 50% plus one share in Orascom Telecom Holding SAE, one of the leading telephone operators in the Middle East, Africa and Asia,



whose shares are listed on the Cairo and Alexandria Stock Exchange and traded as General Depositary Receipts (GDR) on the London Stock Exchange.

On August 11, 2005, Enel SpA also subscribed a capital increase by Weather, acquiring a 5.2% stake for €305 million.

On February 8, 2006, Enel SpA and Weather completed the second and final phase of the sale of Wind following the exercise of the call option provided for in the agreements by Weather on January 16, 2006.

Specifically, Enel sold a holding of 6.28% of Wind to a subsidiary of Weather for €328 million in cash. Enel also transferred to Weather its remaining 30.97% stake in Wind – valued at about €1,655 million on the basis of an independent appraisal submitted by Enel as required by law – in exchange for shares representing 20.9% of Weather. The transfer gave Enel a total holding of 26.1% in Weather. Enel's investment in Weather is governed by lock-up agreements with a view to seeking a stock market listing for Weather subject to favorable market conditions.

Following the two phases of the Wind disposal, Weather directly and indirectly holds the entire capital of Wind, as well as a stake of 50% plus one share in Orascom Telecom Holding SAE, and the Enel Group will have received from Weather €3,009 million net in cash and a holding of 26.1% of Weather with a value of about €1,960 million (equal to the sum of (i) €305 million paid by Enel for 5.2% of Weather in the first phase of the operation and (ii) about €1,655 million as the appraised value of the 30.97% of Wind transferred on February 8, 2006).

#### **Distribution of an interim dividend in respect of 2005 profits**

On September 29, 2005, the Board of Directors of Enel SpA, implementing its decision of September 8, 2005, set the interim dividend from 2005 net income at €0.19 per share. The interim dividend was distributed starting November 24, 2005.

#### **New organizational structure of the Enel Group**

In implementation of the decision of the Board of Directors, in November 2005 Enel launched its new organizational structure, which envisages the creation of an International Division that will include all the Group's resources devoted to generation and distribution activities abroad, which had previously been divided among other divisions. It also confirmed the rest of the new divisional structure, which will include the Domestic Sales Division, the Domestic Networks and Infrastructure Division and the Domestic Generation and Energy Management Division. The International Division's mission is to support Enel's international growth strategy, which will require a strengthening of skills in research, analysis and identification of opportunities for acquisitions as well as in managing and integrating foreign operations in the electricity and gas markets. The Domestic Sales Division will operate in the end-user market for electrical power and gas in Italy, developing an integrated package of products and services for the various customer segments and ensuring that commercial services meet quality standards. The mission of the Domestic Networks and Infrastructure Division is to distribute electricity

and gas in Italy, optimizing the management of Enel's networks and ensuring the efficient operation of measurement systems (remote management) and compliance with technical service quality standards. The Domestic Generation and Energy Management Division is responsible for generating power at competitive costs while safeguarding the environment.

#### **Renewal of the Medium Term Notes and Commercial Paper programs**

In November 2005, Enel (through its subsidiary Enel Finance International SA) renewed its Medium Term Notes program, keeping its size unchanged at €10 billion. Enel also renewed its Commercial Paper program, which was increased from €2.5 billion to €4 billion.

## Results of Enel SpA

The following table summarizes the performance of Enel SpA in 2005 and 2004 by reclassifying the items of the income statement prepared in accordance with current regulations.

Millions of euro

	2005	2004	2005-2004
<b>Revenues:</b>			
> revenues from electricity sales	814	767	47
> other revenues from Group companies	237	253	(16)
> other income	37	594	(557)
<b>Total revenues</b>	<b>1,088</b>	<b>1,614</b>	<b>(526)</b>
<b>Operating costs:</b>			
> personnel	83	86	(3)
> electricity purchases	604	577	27
> services, leases and rentals	211	179	32
> other costs	85	45	40
<b>Total operating costs</b>	<b>983</b>	<b>887</b>	<b>96</b>
<b>GROSS OPERATING MARGIN</b>	<b>105</b>	<b>727</b>	<b>(622)</b>
Depreciation, amortization and provisions	80	76	4
<b>OPERATING INCOME</b>	<b>25</b>	<b>651</b>	<b>(626)</b>
> Net income/(expense) from investments	1,374	(1,063)	2,437
> Net financial income/(expense)	(170)	(262)	92
> Net extraordinary income/(expense)	1,470	7,696 <sup>(1)</sup>	(6,226)
<b>INCOME/(LOSS) BEFORE TAXES</b>	<b>2,699</b>	<b>7,022</b>	<b>(4,323)</b>
Income taxes	(16)	(250)	234
<b>NET INCOME FOR THE YEAR</b>	<b>2,715</b>	<b>7,272 <sup>(1)</sup></b>	<b>(4,557)</b>

(1) Net extraordinary income and net income for 2004 include €2,241 million from the elimination of tax distortions mainly caused by the writedown of investments.

*Revenues from electricity sales* totaled €814 million, and consist of the sale of imported electricity to the Single Buyer at a price set by the Authority for Electricity and Gas.

The increase of €47 million compared with 2004 is primarily the result of a rise in the average unit price; sales volumes remained substantially unchanged.

*Other revenues from Group companies*, which came to €237 million, consist of €219 million for assistance and advisory services to subsidiaries (€230 million in 2004), and €18 million from the pass-through of expenses relating to supplementary pension payments for retired managers pertaining to the subsidiaries (€23 million in 2004). The fall of €5 million is reflected in the smaller accrual to the supplementary pension fund.

*Other income*, which came to €37 million, shows a fall of €557 million, essentially a reflection of the fact that the accounts of 2004 posted receipts of €555 million in respect of reimbursement of stranded costs for the years 2000-2003 connected with imports of Nigerian natural gas (decree of the Minister for Productive Activities of August 6, 2004).

*Personnel costs* amounted to €83 million and refer to an average workforce of 580 employees (567 in 2004).

The decrease of €3 million compared with the prior year is the net result of a rise in the average workforce offset by a provision for potential liabilities made in 2004 to cover a one-off wage payment based on dividends distributed out of proceeds on disposals.

*Electricity purchases* came 14,404 kWh, and show an increase of €27 million with respect to the previous year. The change is essentially ascribable to a rise in unit prices which, as noted, also led to an increase in revenues.

*Costs for services, leases and rentals*, which came to €211 million, refer to charges by third parties amounting to €154 million and charges by Group companies of €57 million. The costs refer mainly to IT, facility management, telecommunication services and rental, and were provided mainly by Enel Servizi (formerly Enel Ape).

The increase of €32 million on 2004 is largely attributable to payments made for the use of transport capacity (€13 million), higher expenses relating to international purchases (€4 million) and an increase in services received from Group companies (€14 million).

*Other costs*, amounting to €85 million, show an increase with respect to the previous year of €40 million, mainly due to higher charges for green certificates and the effects of the application of Resolution no. 20/04 of the Authority for Electricity and Gas in March 2004, which, following a ruling issued by the Council of State, lowered the price of the electricity sold to Enel Distribuzione.

The *gross operating margin* amounted to €105 million, a fall of €622 million compared with the previous year, mainly as a result of the higher operating costs discussed above and the fact that in 2004 the Company was reimbursed €555 million in stranded costs relating to the import of natural gas from Nigeria.

*Depreciation, amortization and provisions* (€80 million) consist of the amortization of non-current tangible and intangible assets (€13 million), accruals to the Company's supplementary pension plan for retired managers, which are proportionately charged through to Enel companies in the amount to which they are individually liable (€22 million), and accruals to the provision for risks and charges (€45 million).

The last item mainly refers to accruals made to the provision for litigation and other disputes, taking account of settlements in the process of being finalized.

*Operating income*, net of depreciation, amortization and provisions, came to €25 million, down €626 million compared with 2004.

*Income from investments*, net of adjustments, is €1,374 million (-€1,063 million in 2004). Dividend income comes to €1,542 million and refers to dividends approved in 2005 for profits made in 2004 by subsidiaries (€1,536 million) and the interim dividend for 2005 from Terna (€6 million). Writedowns of investments total €168 million, and are mainly composed of the adjustment of the book value of Enel Investment Holding BV to the value of its shareholders' equity. In 2004, income included €1,838 million in dividends paid on the profits of subsidiaries for 2003 as well as an interim dividend for 2004 of Terna amounting to €45 million, whereas writedowns of investments, which totaled €2,946 million, mainly refer to the writedown of telecommunication investments (€2,889 million).

*Net financial expense* amounted to €170 million. The fall of €92 million with respect to the prior year reflects the reduction in average debt.

Net *extraordinary income* came to €1,470 million. It consists mostly of the capital gains made on the sale of 43.85% of Terna SpA (€1,487 million). The operation also entailed extraordinary expenses of €7 million.

In 2004, net extraordinary income amounted to €7,696 million, primarily in relation to the net effects of the elimination of tax distortions (€2,241 million), capital gains on the global offer for 50% of Terna SpA (€1,249 million), and the sale of equity investments in Enel Green Power to Enel Produzione (€3,387 million) and in Enel Distribuzione Gas to Enel Distribuzione (€601 million).

*Income taxes* for the year show income of €16 million as a result of the net balance on tax related income items.

*Net income for the year* amounted to €2,715 million, compared with €7,272 million in 2004. The difference between the two years mostly derives from the change in capital gains on equity disposals, the reimbursement of stranded costs that the Company received in 2004 and the effects of eliminating tax distortions.

Cash flows for 2005 are reported below.

Millions of euro

	2005	2004	2005-2004
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income	2,715	7,272	(4,557)
Depreciation and amortization	13	5	8
Writedown of equity investments	168	2,946	(2,778)
Net gains on the disposal of investments	(1,481)	(5,494)	4,013
Net change in provisions (including severance pay)	31	(294)	325
Effect of elimination of tax distortions	-	(2,241)	2,241
<i>Cash flow from operating activities before changes in net current assets</i>	<i>1,446</i>	<i>2,194</i>	<i>(748)</i>
(Increase)/Decrease in liquidity:			
> net receivables from Parent Company	1	508	(507)
> net tax credits	(165)	(79)	(86)
> other assets and liabilities	341	(413)	754
<b>Cash flow from operating activities</b>	<b>1,623</b>	<b>2,210</b>	<b>(587)</b>
<b>CASH FLOW FOR INVESTING ACTIVITIES</b>			
(Investments)/Disinvestments of equity investments	36	7,430	(7,394)
Changes in other non-current assets	(187)	(8)	(179)
<b>Cash flow generated by/(employed in) investing activities</b>	<b>(151)</b>	<b>7,422</b>	<b>(7,573)</b>
<b>CASH FLOW FOR FINANCING ACTIVITIES</b>			
Changes in net debt to third parties:			
> medium and long-term	157	(210)	367
> short term	(1,550)	(433)	(1,117)
Change in net financial position with subsidiaries	2,991	(5,134)	8,125
Change in equity due to distribution of dividends	(3,383)	(4,209)	826
Changes in equity due to stock option plans	339	241	98
<b>Cash flow employed in financing activities</b>	<b>(1,446)</b>	<b>(9,745)</b>	<b>8,299</b>
<b>CASH FLOW GENERATED/(EMPLOYED) IN THE YEAR</b>	<b>26</b>	<b>(113)</b>	<b>139</b>
<b>OPENING CASH BALANCE</b>	<b>20</b>	<b>133</b>	<b>(113)</b>
<b>ENDING CASH BALANCE</b>	<b>46</b>	<b>20</b>	<b>26</b>

Cash flow generated by current operating activities in 2005 came to €1,623 million, a fall of €587 million compared with the previous year. The decline was caused by the payments on account to the tax authorities (€350 million) and a fall in the dividends distributed by Group companies (€341 million), the effects of which were partly offset by the collection of the year's share of reimbursements for the stranded costs incurred in relation to imports of natural gas from Nigeria (€164 million).

Cash flow from investing activities refers mainly to the following:

- > the sale of the investment in Terna (€1,883 million);
- > the sale of investments in Enel.Hydro, Idrosicilia and Echelon (€37 million);
- > the acquisition of investments in Enel Finance International (€1,414 million), Enel Factor (€8 million) and Weather Investments (€305 million) for a total of €1,727 million;
- > capital contributions amounting to a total of €328 million to subsidiaries and the deposit paid on the acquisition of 66.0% of Slovenské Elektrárne.

Cash flow employed in investing activities amounted to €1,446 million, and mostly consists of the payment of the dividend for 2004 (€2,214 million), the interim dividend for 2005 (€1,169 million), the reduction of total debt (€1,393 million), which were partly offset by the reduction in the borrowing requirements of subsidiaries (€2,991 million), and positive cash flows deriving from the exercise of stock options (€339 million).

Finally, cash generated by current operating activities was sufficient to cover all the requirements arising in respect of investing and financing activities and contributed to generating an overall positive cash flow of €26 million.

Net financial debt at December 31, 2005 and changes from December 31, 2004 are reported below:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
<b>Medium- and long-term debt:</b>			
> bank loans	59	1,581	(1,522)
> bonds	7,643	7,042	601
> own bonds and other items	(492)	(502)	10
> debts undertaken and loans made to subsidiaries	(1,569)	(1,656)	87
<b>Medium- and long-term debt</b>	<b>5,641</b>	<b>6,465</b>	<b>(824)</b>
> Loan to Wind	-	(168)	168
> Other medium- and long-term receivables	-	(75)	75
> Medium- and long-term security deposits	-	(1,500)	1,500
<b>Net medium- and long-term debt</b>	<b>5,641</b>	<b>4,722</b>	<b>919</b>
<b>Short-term debt:</b>			
> current portion of medium- and long-term debt <sup>(1)</sup>	600	956	(356)
> short-term amounts due to banks	753	2,303	(1,550)
> net short-term financial position with subsidiaries and associates	(4,094)	(6,679)	2,585
> cash at banks and marketable securities	(46)	(20)	(26)
<b>Net short-term financial debt</b>	<b>(2,787)</b>	<b>(3,440)</b>	<b>653</b>
<b>NET FINANCIAL DEBT</b>	<b>2,854</b>	<b>1,282</b>	<b>1,572</b>

(1) Of which €87 million refers to debts undertaken on behalf of subsidiary companies in 2005 and €238 million in 2004.

Net financial debt at December 31, 2005 amounts to €2,854 million, an increase of €1,572 million compared with December 31, 2004. Specifically, net medium- and long-term debt shows a rise of €919 million and a deterioration in the short-term financial position of €653 million.

The leading causes of the changes in the debt include a reduced use of the 36-month revolving credit facility and the redemption of a bond of €750 million in December.

The most important financial transactions during the year include two seven-year bonds of €400 million and €600 million issued to Italian retail investors on March 10, 2005.

During the year, the loans to Wind and Newreal were fully repaid and, as part of the disposal of Wind, Enel's pledged deposit with a leading Italian bank was returned. The deposit was established in 2003 as part of the renegotiation of a €1,500-million credit line granted in 2001 to Infostrada (later merged into Wind).



The Enel SpA balance sheet for 2005 is shown below along with comparative figures for 2004.

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
<b>Net non-current assets:</b>			
> tangible and intangible	31	33	(2)
> financial	17,698	16,074	1,624
<b>Total</b>	<b>17,729</b>	<b>16,107</b>	<b>1,622</b>
<b>Net current assets:</b>			
> trade receivables	189	158	31
> other assets and net receivables from Electricity Equalization Fund	1,050	1,435	(385)
> net receivables from subsidiaries and associates	(92)	(91)	(1)
> net tax receivables	572	407	165
> trade payables	(308)	(327)	19
> other liabilities	(333)	(327)	(6)
<b>Total</b>	<b>1,078</b>	<b>1,255</b>	<b>(177)</b>
<b>Gross capital employed</b>	<b>18,807</b>	<b>17,362</b>	<b>1,445</b>
Provisions	(981)	(779)	(202)
<b>Net capital employed</b>	<b>17,826</b>	<b>16,583</b>	<b>1,243</b>
<b>Shareholders' equity</b>	<b>14,972</b>	<b>15,301</b>	<b>(329)</b>
<b>Net financial debt</b>	<b>2,854</b>	<b>1,282</b>	<b>1,572</b>
<b>TOTAL</b>	<b>17,826</b>	<b>16,583</b>	<b>1,243</b>

*Financial assets* increased by €1,624 million mainly as a result of the following operations:

- > the acquisition of the 20% of Enel.Factor held by Meliorbanca, at a cost of €8 million. The acquisition brought Enel SpA's investment to 100%, making it sole shareholder;
- > the acquisition of 5.2% of the share capital of Weather Investments for €305 million as part of the operation for the disposal of Wind;
- > the acquisition of the entire shareholding in Enel Finance International from Enel Produzione (75%) and Enel Distribuzione (25%) at a cost of €1,414 million;
- > the deposit of €168 million following the signing of a contract for the purchase of Slovenské Elektrárne;
- > capital contributions equal to €160.0 million, most of which to Wind;
- > the disposal of 43.85% of Terna, carried at a book value of €396 million;
- > the sale of the entire shareholding in Enel.Hydro SpA, carried at a book value of €19 million;
- > the sale of the 20% investment in Idrosicilia SpA and the investment in Echelon.

*Net current assets* amounted to €1,078 million, a reduction of €177 million compared with December 31, 2004. The change is mainly the result of the following factors:

- > a decrease in *other assets and net receivables from Electricity Equalization Fund* totaling €385 million, primarily resulting from the receipt of the receivable due from the Fund in respect of the costs associated with natural gas imports from Nigeria (€164 million) and the reduction in deferred tax assets (€228 million) brought about by utilizations regarding writedowns of equity investments made in previous years;
- > an increase of €165 million in *net tax receivables*, referring mainly to the credit position under the national consolidated taxation mechanism.

*Net capital employed* at December 31, 2005 was 84% covered by shareholders' equity, compared with 92% at December 31, 2004.

*Shareholders' equity* at December 31, 2005 amounted to €14,972 million and, compared with 2004, includes net income for 2005 amounting to €2,715 million, distributed dividends of €2,214 million relating to earnings in 2004 (equal to €0.36 per share), and the distribution of €1,169 million in respect of an interim dividend for 2005 (€0.19 per share).

During 2005, 53,549,782 options granted under the stock option plans for the years 2001, 2002, 2003 and 2004 were exercised, which led to an increase of €339 million in shareholders' equity, against which share capital was increased by €53.6 million, and the share premium reserve by €285.3 million. Enel share capital thus rose from €6,103.5 million at December 31, 2004 to €6,157.1 million at December 31, 2005.

*Net financial debt* totaled €2,854 million, equal to 19% of shareholders' equity compared with 8% at the end of 2004.

## Performance of the main subsidiaries

### Enel Produzione SpA

In 2005, the company was involved in several extraordinary operations, including the absorption of its subsidiaries Enel Green Power SpA, Enel Logistica Combustibili Srl and Conphoebus Srl by means of mergers with taking effect for tax purposes as of January 1, 2005.

The net output of Enel Produzione SpA in 2005 totaled 112.1 billion kWh, compared 125.9 billion kWh on a comparable scope of consolidation basis. The decline of 13.8 billion kWh also reflects the coming into service of new capacity at third-party generating companies and the ongoing program of plant conversions.

Revenues from sales and services in 2005 were €9,361.1 million.

Operating costs rose by €1,100.1 million in connection with the increase in the cost of the factors of production, higher costs for purchases on the Power Exchange (€290.7 million), and the effects of Resolution no. 20/2004, which required the company to make a negative adjustment in respect of power sold to distributors in March 2004 (€191.3 million).

Amortization and depreciation charges rose by €206.2 million (+19.8%), mainly as the combined effect of the allocation of goodwill from the merger with Enel Green Power to its non-current tangible assets, and of a reduction in depreciation charges arising from the revision of the estimated useful life of power plants.

Provisions and writedowns amounted to €240.2 million, mainly consisting of provisions totaling €182.0 million for costs that the company will incur for CO<sub>2</sub> emissions allowances in 2005.

Net financial expense increased by €69.6 million, largely as a result of a rise in average debt in 2005 compared with 2004. The total encompasses income from equity investments amounting to €29.4 million (€27.8 million in 2004), consisting of the balance of dividends distributed by Enel Finance International (€32.8 million) and the writedown of the value of the equity investment in Enel Green Power International (€4.4 million).

Net extraordinary income amounted to €14.9 million, compared with €1,014.4 million in 2004, a figure that includes the effects of eliminating tax distortions, which amounted to €1,186.0 million.

After taxes of €679.3 million, net income for the year was €1,041.1 million, a fall of €1,485.0 million compared with the prior year largely as a result of the elimination of tax distortions (€1,186.0 million) and the recognition of prior stranded costs (€322.0 million).

In 2005, the company invested €616.7 million in non-current tangible assets (€620.9 million in 2004). The most important projects regarded the reconversion of the Torrevaldaliga Nord power plant to coal, the transformation to fluidized-bed technology and adaptation to biomass of the Sulcis plant, the upgrading and repowering of 41 hydroelectric stations to cover the company's green certificate requirements.

Net capital employed at December 31, 2005 amounted to €15,135.8 million, and is financed by shareholders' equity amounting to €10,274.4 million (67.9%) and net financial debt of €4,861.4 million (32.1%).

The workforce at December 31, 2005 numbered 8,773, compared with 9,781 at December 31, 2004.

## Enel Distribuzione SpA

In 2005, Enel Distribuzione SpA, which serves around 30.1 million final customers on both the free and regulated markets, distributed a total of 248.6 billion kWh, equal to around 80.6% of the final market, a slight reduction of 0.4% compared with 2004.

In April 2005, the company finalized the acquisition of controlling stakes in Electrica Banat and Electrica Dobrogea, two electricity distributors, for which it paid Electrica SA (the Romanian state energy company) €131.1 million. Together, the two companies control 19% of the market for the distribution and sale of electricity in Romania. With a 3,629 employees between them, the companies operate a distribution network covering more than 68,000 kilometers and more than 1.4 million customers.

On July 1, 2005, Enel Distribuzione sold its "Trentino" business unit to SET (a company operated by the Autonomous Province of Trento). The unit operates a network of around 6,700 kilometers, with 3,000 substations and 259 employees serving 255,000 customers. The sale price was €168.9 million. Total revenues amount to €17,225.8 million, an increase of €471.7 million compared with 2004 thanks to an expansion both in revenues from sales and services (+€282.4 million) and in other revenues and income (+€189.3 million). The expansion in other revenues is mostly the result of the recognition, in the form of prior-year income, of lower electricity purchase costs for 2004 thanks to a ruling of the Council of State reinstating Resolution no. 20/2004, which had previously been suspended by order of a regional administrative court. With the resolution, the Authority ordered a reduction in the purchase cost of electricity for the regulated market for March 2004. At the same time, through the equalization mechanism, prior-year charges were also recognized and posted under "other costs".

Revenues from sales and services totaled €16,532.6 million, an increase of €282.4 million with respect to 2004, mainly as a result of higher revenues from the sale and transport of electricity (+€297.6 million). Total costs came to €14,894.1 million, up €884.6 million compared with 2004 owing both to an increase of €684.6 million in electricity purchase and transport costs and to the recognition of prior-year charges in relation to the lower equalization payments in respect of generation costs in connection to the Council of State ruling. Amortization, depreciation, provisions and writedowns also show an increase of €106.6 million.

Operating income came to €2,331.7 million, a fall of €413.0 million compared with the previous year caused partly by the contraction in the margin on electricity sales and transport (€304.3 million) and partly by the higher amortization, depreciation, provisions and writedowns.

Net financial expense totaled €63.1 million, an increase of €19.5 million with respect to the previous year.

Net extraordinary income amounted to €27.7 million, and is mainly attributable to the recognition of extraordinary gains on disposals (€101.1 million), partly offset by the writedown made following a recalculation of the expenses yet to be incurred for the accelerated decommissioning of analogue meters as part of the digital metering project now nearing completion (€37.0 million) and charges connected with voluntary early retirements by workers (€27.2 million).

The net income for 2005, after taxes of €905.6 million, came to €1,390.7 million.  
Net capital employed at December 31, 2005 amounted to €12,723.1 million, covered by shareholders' equity totaling €10,198.8 million (80.2%) and net financial debt of €2,524.3 million (19.8%).  
The workforce at December 31, 2005 numbered 29,108, compared with 32,402 a year earlier.

## Enel Trade SpA

In 2005, Enel Trade managed the procurement of fuels for Enel Group power stations and natural gas for Enel Gas, traded in energy products and shipping services on the domestic and international market, and sold electricity and gas to high-consumption customers (using more than 100 GWh per year) and wholesalers. The company also carried out hedging operations on behalf of Enel Group companies to protect against commodity price fluctuations in the energy sector.

In 2005, Enel Trade sold its entire shareholding in Pragma Energy SA to Enel Investment Holding BV, a wholly-owned subsidiary of Enel SpA. It also sold its interest in Brindisi LNG (a company formed to build and operate a liquid natural gas regasification plant in the Port of Brindisi) to BG Italia SpA. The agreed sale price for the latter operation was €44.1 million, equal to the costs incurred by Enel Trade in the project. At the date of closing of the deal (June 21, 2005), Enel Trade SpA received a first installment of around €17.0 million. The payment of the remaining amount is set to take place around one year after the closing, as soon as a number of conditions relating to the continuation of the project by the BG Group have been met.

Revenues from sales and services amounted to €7,565.0 million (compared with €6,864.4 million in 2004).

Other revenues and income amounting to €417.1 million (€320.9 million at end-2004) include €229.0 million in income deriving from commodity risk hedges (€121.6 million in 2004).

Operating costs totaled €7,805.5 million (€7,052.8 million in 2004), and include €5,073.1 million for the cost of purchasing fuels, €2,207.7 million for electricity purchases and €158.5 million in charges for commodity risk hedging.

Net financial income shows a balance of €9.1 million (compared with net expense of €8.8 million in 2004), mainly as a result of lower debt and income gained on the sale of the equity interest in Pragma Energy, which made it possible to recoup some of the writedowns recognized in previous years.

Income before taxes increased from €124.6 million in 2004 to €188.3 million in 2005, while net income for the year rose from €76.9 million to €126.0 million.

Net capital employed at December 31, 2005 amounted to €388.5 million, and is covered by shareholders' equity totaling €241.8 million (62.2%) and net financial debt of €146.7 million (37.8%).

The workforce at December 31, 2005 numbered 194, compared with 189 a year previous.

## Enel Finance International SA

The company, headquartered in Luxemburg, functions as a holding company for the Group's equity investments and financial assets.

In connection with the reorganization of the Group's equity investments, as of November 4, 2005, Enel Finance International SA (formerly 75% owned by Enel Produzione SpA and 25% by Enel Distribuzione SpA) was acquired entirely by Enel SpA.

Enel Finance International holds 100% of Enel Ireland Finance Ltd, a company based in Dublin, Ireland, which for 2005 renewed a loan of €1,291.0 million that was already outstanding at December 31, 2004. As regards financing provided to Group companies during the year, the following loans outstanding on December 31, 2004 were renewed until December 31, 2005: Viesgo Generación SL for €1,169.1 million and Electra de Viesgo Distribución SL for €233.4 million.

On January 2, 2006, the loan received from Enel Ireland Finance and those made to the two Spanish companies mentioned above were repaid.

In the second half of 2005, Enel Finance International joined Enel SpA in renewing two major credit lines that had not been drawn down at December 31, 2005.

Net income for 2005 was €44.9 million and consists largely of the dividends paid by the Enel Ireland Finance Ltd subsidiary.

Shareholders' equity at December 31, 2005 totaled €1,457.4 million (€1,466.9 million at end-2004) and the net financial position was positive in the amount of €143.3 million (€140.5 million at end-2004).

The company has no employees.

## Enel Investment Holding BV

The company, which is registered in the Netherlands, operates as a holding company for equity investments in the electricity and energy sectors and in utility companies in general.

In the first quarter of 2005, Enel Investment Holding acquired the entire share capital of Pragma Energy SA, for which it paid Enel Trade \$8.4 million (the equivalent of €6.5 million).

Pursuant to the contract drawn up on May 26, 2005 by Enel SpA, Enel Investment Holding BV and Weather Investments Srl (a company controlled by the Egyptian businessman Naguib Sawiris), on August 11, 2005 Enel Investment Holding sold its 62.75% investment in Wind to a company controlled by Weather Investments Srl for a price of €2,986.0 million. The income from the sale of the shares, net of the share of the loss recorded by Wind, was €52.8 million, which partly offset the goodwill amortization charge for the period from January 1 to August 10, 2005 (€146.7 million).

In December 2005, Enel Investment absorbed its subsidiary WEBiz Holding BV with administrative and tax effects as of January 1, 2005 and acquired from Enel SpA 7.54% of Echelon, an automation systems company listed on the NASDAQ in the United States, for a price of \$24.6 million (equal to €20.8 million).

In 2005, net income from equity investments came to €69.4 million, while amortization on the Wind goodwill came to €146.7 million.

The financial position improved thanks to a sharp reduction in debt after the disposal of Wind. At the end of the year, net financial expense totaled €94.5 million (compared with €156.2 million in 2004). The net loss for the year was €172.4 million.

The company's balance sheet shows net financial debt of €781.3 million. Shareholders' equity is negative in the amount of €712.1 million. Enel SpA issued a letter of support to guarantee the continuation of the company.

The company has no employees.

### Enel Servizi Srl (formerly Enel Ape Srl)

Enel Servizi Srl is responsible for the computerized management of personnel, the organization, implementation and supply of IT services, the delivery of support services for property management, and accounting and administrative activities on behalf of all Enel Group companies based in Italy.

In 2005, as part of the project approved by the Enel Board of Directors on October 21, 2004 to reorganize staff and service activities by concentrating the administration of these operations in a single company, namely Enel Servizi Srl, the following operations were finalized:

- > the merger with Enel Facility Management SpA and Enel.it Srl;
- > the acquisition of the Information and Communication Technology, Administration and Services departments of a number of other Enel Group companies.

Total revenues in 2005 came to €798.8 million, an increase of €124.0 million on the pro forma total for 2004. They are derived essentially from administrative services delivered by the departments acquired during the year and by increased revenues for services, most of which were supplied to Group companies. Operating costs came to €770.6 million, an increase of €87.1 million on the pro forma value for 2004. Operating income was €28.2 million, an increase of €36.9 million compared with the pro forma total for the previous year. The net result was boosted in particular by a reduction in amortization for intangible assets (-€41.7 million).

Net financial expense came to €4.0 million, consisting mainly of capital losses on the sale of equity investments in Immobiliare Progetto Ostiense "IPO" and Leasys.

Net extraordinary expense amounted to €9.9 million and primarily regards early retirement incentives.

Net income for the year, after taxes amounting to €4.3 million, was €10.0 million.

Net capital employed totaled €350.2 million, and is entirely covered by shareholders' equity, which totals €510.9 million. The net financial position of the company is positive in the amount of €160.7 million.

The number of employees rose from 772 at the end of 2004 to 4,338 at December 31, 2005 as a result of the integration of Enel Facility Management and Enel.it and the acquisition of the Information and Communications Technology, Administration and Services departments from other Enel Group companies.

## Enelpower SpA

During the year, Enelpower continued its activities as EPC General Contractor for the turn-key construction and delivery of power plants on behalf of Enel Group companies (captive market). The company also continued work on finalizing plants on behalf of third-part customers in Italy and abroad. Revenues in 2005 totaled €793.7 million, of which €215.5 million from customers outside the Enel Group.

Operating expenses totaled €669.7 million, a decrease of €139.4 million on 2004 resulting from a decline in the volume of activities.

Operating income was €124.0 million, substantially in line with the result for the previous year.

Net financial income amounted to €4.6 million, mainly generated by interest income on financial receivables due from the Parent Company.

Net income for 2005, after taxes of €56.7 million, came to €57.2 million.

Net capital employed at December 31, 2005 was negative in the amount of €309.1 million, and consists of net non-current assets amounting to €4.0 million, negative net current assets of €193.2 million and sundry provisions amounting to €119.9 million.

Net shareholders' equity amounts to €122.9 million, and net positive cash flow to €432.0 million, up €135.9 million compared with end-2004.

The number of employees at December 31, 2005 was 826, compared with 937 at December 31, 2004 (including employees in foreign branches, who numbered 40 in 2005 and 75 in 2004).



## Corporate governance

### Section I: governance structure

#### Foreword

During 2005, the Company's and Group's corporate governance system continued to be in line with the principles contained in the Self-regulation Code of listed companies, with the recommendations expressed by the Consob on this issue and, in general, with international best practice.

This corporate governance system's aim is essentially the creation of shareholder value, taking into account the social importance of the Group's activities and the consequent need to adequately consider all interests involved in the carrying out of these activities.

During 2006, Enel intends to update its corporate governance system in order to ensure that it is permanently aligned with the recommendations put forward by the new edition of the Self-regulation Code of listed companies, which was published in March 2006 and has been applicable since that date.

#### Ownership structure

The capital stock of the Company is made up exclusively of registered ordinary shares fully paid up and entitled to full voting rights, both in Ordinary and Extraordinary Shareholders' Meetings.

According to the entries in the stock register and the information available, no shareholder – with the exception of the Italian Ministry for the Economy and Finance, which owns 21.36% of the share capital, and the Cassa Depositi e Prestiti (a joint-stock company controlled by the aforesaid Ministry), which owns 10.18% of the share capital – owns more than 2% of the Company's capital stock, nor, to the Company's knowledge, do any agreements regarding Enel shares exist among its shareholders.

Both the Assicurazioni Generali group (during February and March 2005) and the Banca Intesa group (during May and June 2005) have been temporarily in possession of a shareholding constituting slightly more than 2% of the Company's capital.

#### Organizational structure

In compliance with current regulations applicable in Italy to companies with listed shares, the organizational structure of Enel includes:

- > a Board of Directors entrusted with the management of the Company;
- > a Board of Statutory Auditors responsible for (i) ensuring compliance with the law and the Company's bylaws, in addition to the application of correct management principles in the carrying out of business, and (ii) checking the adequacy of the Company's organizational structure, internal audit system and administration;
- > Shareholders' Meetings, called to resolve – either in an Ordinary or an Extraordinary session – among other things on (i) the appointment and removal of members of the Board of Directors and of the Board of Statutory Auditors, as well as their compensation and responsibilities, (ii) the approval of the financial statements and the allocation of net income, (iii) the acquisition and sale of own shares, (iv) amendments to the Company's bylaws, and (v) the issue of convertible bonds.

The external audit of the Company's accounts is entrusted to a specialized firm registered with the Consob and expressly appointed, after the Board of Statutory Auditors has expressed its opinion, by a Shareholders' Meeting.

Enel's external auditor is entrusted with the same task at the other Group companies.

In addition to the prohibition regarding the performance of specific kinds of services imposed on auditing firms by the recent amendments to the Unified Financial Act, the provisions of the Group's code of ethics have for some time established that the external audit of the Company's financial statements and of the consolidated financial statements is incompatible with the performance of consulting activities for any Group company and such incompatibility extends to the external auditor's entire network.

## Section II: implementation of the provisions of the Self-regulation Code of listed companies and additional information

### Board of Directors

#### Role and powers

The Company's Board of Directors plays a central role within the Company's organization and is entrusted with the powers and the responsibility regarding strategic and organizational policies, as well as with verifying the existence of the controls necessary for monitoring the performance of the Company and the Group.

In such context, the Board of Directors, on the basis of the provisions of the law and specific resolutions of its own (and, specifically, of the one adopted in November 2005):

- > establishes the system of corporate governance within the Company and the Group and sees to the constitution and the definition of the functions of the Board's internal committees, whose members it appoints;
- > delegates and revokes the powers of the Chief Executive Officer, defining their content, limits and the procedures, if any, for exercising them. On the basis of the delegations in force, the Chief Executive Officer is vested with the broadest powers for the management of the Company, with the exception of those attributed otherwise by the law or the Company's bylaws or reserved to the Board of Directors according to the resolutions of the latter and described below;
- > receives, together with the Board of Statutory Auditors, constant and exhaustive information from the Chief Executive Officer regarding the activities carried out in the exercise of his powers, which is summarized in a special quarterly report. In particular, with regard to all the most significant transactions carried out using the powers of his office (including atypical or unusual transactions or transactions with related parties whose approval is not reserved to the Board of Directors), the Chief Executive Officer reports to the Board on (i) the features of the transactions, (ii) the parties concerned and any relation they might have with Group companies, (iii) the procedures for determining the considerations concerned, and (iv) the related effects on the income statement and the balance sheet;
- > determines, on the basis of the proposals formulated by the related Committee and having received the opinion of the Board of Statutory Auditors, the compensation of the Chief Executive Officer and of other Directors holding specific offices;
- > evaluates, on the basis of the analyses and proposals made by the special Committee, the criteria adopted for the compensation of the top management of the Company and the Group and decides with regard to the adoption of the incentive plans addressed to executives;
- > defines the general organizational set-up of the Company and the Group and the corporate structure of the latter, verifying their adequacy;
- > reviews and approves strategic, business and financial plans. In this context, the current division of powers within the Company specifically provides for the Board of Directors to resolve on the approval of:
  - the annual budget and the long-term plan (which include the aggregates of the annual budgets and long-term plans of Group companies);

- strategic agreements, also determining – upon proposal by the Chief Executive Officer and after the Chairman has expressed his opinion – the strategic objectives of the Company and the Group;
- > examines and approves transactions having a significant impact on the balance sheet, income statement or cash-flow statement, particularly in cases where they are carried out with related parties or otherwise characterized by a potential conflict of interest.  
In particular, all financial transactions of a significant size – by which is meant taking on loans exceeding the value of €50 million, as well as granting loans and issuing guarantees in favor of third parties exceeding the value of €25 million – must be approved beforehand (if they concern the Company) or evaluated (if they refer to Group companies) by the Board of Directors.  
In addition, the acquisition and disposal of equity investments amounting to more than €25 million must be approved beforehand (if they are carried out directly by the Company) or subjected to evaluations (if they concern Group companies) by the same Board of Directors. Finally, the latter approves agreements (with ministries, local governments, etc.) that entail expenditure commitments exceeding €25 million;
- > provides for the exercise of voting rights at Shareholders' Meetings of the companies directly controlled by the Parent Company and designates the Directors and Statutory Auditors of the aforesaid companies;
- > appoints the General Manager and grants the related powers;
- > evaluates the general management of the Company, with particular reference to conflicts of interest, using information received from the Chief Executive Officer and the Internal Control Committee, and verifies periodically the achievement of the objectives set;
- > formulates proposals to submit to Shareholders' Meetings and reports to the Shareholders at the latter.

### Appointment, composition and term

Pursuant to the provisions of the Company's bylaws, the Board of Directors consists of from three to nine members, appointed for a term not exceeding three accounting periods, who may be reappointed at the expiration of their term. To them may be added a non-voting director, whose appointment is reserved to the Italian government in virtue of the legislation regarding privatizations and a specific provision of the bylaws. To date, the Italian government has not exercised this power of appointment. According to the current legislation, Directors must possess the requisites of honorableness required of (i) company representatives of financial intermediaries, as well as (ii) statutory auditors of listed companies.

In compliance with legislation regulating privatizations and in accordance with the recent amendments to the Unified Financial Act, the bylaws also provide for the appointment of the entire Board of Directors to take place according to the "slate vote" mechanism, aimed at ensuring the presence on the Board of Directors of members appointed by minority shareholders amounting to three-tenths of the Directors to be elected. In the event this number is a fraction, it is to be rounded up to the nearest integer.

Such electoral system provides that slates of candidates may be presented by the outgoing Board of Directors or by shareholders who, individually or together with other shareholders, represent at least 1% of the share capital. The slates are filed at the Company's registered office and published in national newspapers sufficiently in advance of the date of the Shareholders' Meeting concerned – 20 days in advance being the deadline if the slate is presented by the outgoing Board of Directors and 10 days if the slates are presented by shareholders – thus ensuring a transparent process for the appointment of the Board of Directors.

A report with exhaustive information regarding the personal and professional characteristics of the candidates, accompanied by a statement of whether or not the latter qualify as independent, is to be filed at the Company's registered office at the same time as the slates, as well as published immediately on the Company's website, as noted specifically in the notice of the Shareholders' Meeting.

The Board of Directors deems that it can defer the creation within itself of a special nominations committee since so far there has been no evidence that it is difficult for the shareholders to find adequate candidates, so as to achieve a composition of the Board of Directors corresponding to the recommendations of the Self-regulation Code of listed companies.

As resolved by the Ordinary Shareholders' Meeting of May 26, 2005, the incumbent Board of Directors consists of nine members, whose term expires when the financial statements for 2007 are approved. As a result of the appointments made at the aforesaid Shareholders' Meeting, the Board thus currently consists of the following members, whose professional profiles are summarized below, together with the specification of the slate on which each was nominated.

> **Piero Gnudi, 67, Chairman** (designated on the slate presented by the Ministry for the Economy and Finance).

A graduate in economics and commerce (1962) of the University of Bologna and proprietor of an accounting firm located in Bologna, he has served on the board of directors and board of statutory auditors of numerous important Italian companies, including STET, ENI, Enichem, and Credito Italiano. In 1995 he was appointed economic advisor to the Minister of Industry. Since 1994, he has been on the board of directors of IRI, where he has also held the positions of supervisor of privatizations (1997) and chairman and chief executive officer (1999); later, from 2000 to 2002, he served as chairman of the IRI liquidation committee. A member of the executive of Confindustria, the steering committee of Assonime (an association of Italian corporations), the executive committee of the Aspen Institute, the committee on the corporate governance of listed companies reconstituted on the initiative of Borsa Italiana in April 2005, and president of the Mediterranean Energy Observatory (OME), he currently also holds the positions of chairman of Emittenti Titoli, vice-chairman of Unicredit Banca d'Impresa, director of Unicredito Italiano, and government commissioner of the Fochi Group, which is under special management. He has been Chairman of the Board of Directors of Enel since May 2002.

- > **Fulvio Conti, 58, Chief Executive Officer and General Manager (designated on the slate presented by the Ministry for the Economy and Finance).**

A graduate of the University of Rome "La Sapienza" with a degree in economics and commerce, in 1969 he joined the Mobil Group, where he held a number of executive positions in Italy and abroad and in 1989-90 was in charge of finance for Europe. The head of the accounting, finance, and control department of Montecatini from 1991 to 1993, he subsequently was in charge of finance at Montedison-Compart (between 1993 and 1996), overseeing the financial restructuring of such group. The general manager and chief financial officer of the Italian National Railways between 1996 and 1998, he also held important positions in other companies of such group (including Metropolis and Grandi Stazioni). Vice-chairman of Eurofima in 1997, in 1998-99 he was general manager and chief financial officer of Telecom Italia, holding also in this case important positions in other companies of such group (including Finsiel, TIM, Sirti, Italtel, Meie, and STET International). From 1999 to June 2005, he was Enel's Chief Financial Officer. He has been the Chief Executive Officer and General Manager of Enel since May 2005.

- > **Giulio Ballio, 66, Director (designated on the slate presented by institutional investors).**

A graduate (1963) with a degree in aeronautical engineering from the Milan Polytechnic Institute, he has also made his academic career there. A professor since 1975, since 1983 he has held the chair of steel construction at the school of engineering and since 2002 has been president of the Institute. The author of many publications (which have also been published abroad), he has carried on an extensive scientific activity. Alongside his academic activity, since 1964 he has worked with several engineering firms and in 1970 founded an engineering services company (B.C.V. Progetti), where he has been involved in numerous projects as designer, site engineer, and consultant, both in Italy and abroad. A member of the National Research Council's committee on regulations for constructing with steel from 1970 to 2000, he was a member of the Board of steel experts from 1975 to 1985 and chairman in 1981-82, as well as a member of the chairman's council of the Italian Calibration Service from 1997 to 2002. He has been involved in the renovation of several important monumental buildings (including the Accademia Bridge in Venice) and has coordinated research activities in the field of construction both in Italy and abroad. He has been a Director of Enel since May 2005.

- > **Augusto Fantozzi, 65, Director (designated on the slate presented by institutional investors).**

A graduate (1963) in law from the University of Rome "La Sapienza", he is a lawyer and the senior partner of a law firm with offices in Rome, Milan, Bologna, and Lugano, as well as a professor of tax law at "La Sapienza" and the LUISS "Guido Carli". The Minister of Finance from January 1995 to May 1996 in Prime Minister Lamberto Dini's Cabinet – where for several months he also held the offices of Minister of the Budget and Economic Planning and Minister for the Coordination of EU Policies – he was subsequently the Minister of Foreign Trade in Prime Minister Romano Prodi's

Cabinet (from May 1996 to October 1998). A member of the Chamber of Deputies in the thirteenth legislature (from May 1996 to May 2001), he was chairman of the Budget, Treasury, and Economic Planning Committee (from September 1999). He has been vice-president of the Finance Council, president of the Ascotributi, and a member of the Consulta of Vatican City. A former chairman of the technical committee of the International Fiscal Association, he is the author of numerous publications and has been a member of the editorial board of Italian and international law reviews. He has also been on the board of directors of numerous companies, including the Benetton group, Lloyd Adriatico, and Citinvest, and since July 2005 has been chairman of the board of directors of Banca Antonveneta. He has been a Director of Enel since May 2005.

> **Alessandro Luciano, 54, Director (designated on the slate presented by the Ministry for the Economy and Finance).**

After graduating from law school, he earned a master's degree in economics and finance in London. A lawyer, he began his career in 1974, consulting in currency law for leading Italian and foreign banks and pleading before the Currency Commission of the Treasury Ministry. At the same time, he was also concerned with the incorporation of companies and with loans from abroad, contributing to the conclusion of several transactions in favor of industries, insurance groups, and state-owned companies. Starting in 1984 he began extending his sphere of activity to the telecommunications industry, where he has been involved with entrepreneurial as well as financial and technical aspects. Formerly a consultant of STET, Techint, Snam Progetti, Aquater and Comerint, and the American company DSC Communications (on behalf of which he participated in trial studies in Italy for the ISDN, MDS, Airspan, and Video-on-demand systems), he has also been vice-chairman of 2 committees of the Italian Soccer Federation. From October 1998 to March 2005, he was a commissioner of the Italian Communications Authority, where he was a member of the Board and of the Infrastructure and Networks Committee. At the Authority he was concerned with, among other things, the development, competition, and interconnection of communication networks, as well as with resolving disputes between telecommunications companies and users. He has been a Director of Enel since May 2005, and has also been chairman of the board of directors of Centostazioni (Ferrovie dello Stato group) since June 2005.

> **Fernando Napolitano, 41, Director (designated on the slate presented by the Ministry for the Economy and Finance).**

A graduate in economics and commerce (1987) of the University of Naples, he completed his studies in the United States, earning at first a master's degree in management at Brooklyn Polytechnic University and later attending the advanced management program at Harvard Business School. He began his career by working in the marketing division of Laben (Finmeccanica group) and then that of Procter & Gamble Italia; in 1990 he joined the Italian office of Booz Allen Hamilton, a management and technology consulting firm, where he was appointed partner and vice-president

in 1998. Within this office he was in charge of developing activities in the fields of telecommunications, media, and aerospace, while also gaining experience in Europe, the United States, Asia and the Middle East. He is currently head of Booz Allen Hamilton's activities in Italy and also carries out assignments with an international scope. Since November 2001 he has served on the committee for surface digital television instituted by the Communications Ministry and since July 2002 has been director of the Italian Center for Aerospace Research (CIRA). He has been a Director of Enel since May 2002.

> **Francesco Taranto, 65, Director (designated on the slate presented by institutional investors).**

He began his career in 1959 in the office of a stockbroker in Milan and subsequently (from 1965 to 1982) worked at the Banco di Napoli, where he eventually became head of the marketable securities service. He then held numerous executive positions in the mutual funds industry, where he was first in charge of investment management at Eurogest (from 1982 to 1984) and then general manager of Interbancaria Gestioni (from 1984 to 1987). After that he worked for the Prime group (from 1987 to 2000), serving for a long time as chief executive officer of the parent company. He has also been a member of the steering committee of Assogestioni and a member of the committee for the corporate governance of listed companies sponsored by Borsa Italiana. A Director of Enel since October 2000, he currently holds the same office at Banca Carige, Pioneer Global Asset Management (part of the Unicredito group), Kedrios, and Alto Partners SGR.

> **Gianfranco Tosi, 58, Director (designated on the slate presented by the Ministry for the Economy and Finance).**

A graduate in mechanical engineering (1971) of the Polytechnic Institute of Milan, since 1972 he has held a number of positions at the same institute, becoming professor of iron metallurgy in 1982 and from 1992 also teaching the course on the technology of metal materials (together with the same position at the University of Lecco). The author of more than 60 publications, he has been extensively involved in scientific activities. A member of the board of directors of several companies and consortia, he has also held positions in associations, including the vice-presidency of the Gruppo Giovani Federlombarda (with duties as regional delegate on the Comitato Centrale Giovani Imprenditori instituted within the Confindustria) and the office of member of the executive committee of the Unione Imprenditori of the Province of Varese. From December 1993 to May 2002 he was mayor of the city of Busto Arsizio. The President of the Center for Lombard Culture, established by the Lombardy Region to defend and develop the local culture, he is also a member of the association of journalists. He has been a Director of Enel since May 2002.



> **Francesco Valsecchi, 41, Director** (designated on the slate presented by the Ministry for the Economy and Finance).

After graduating with honors (1987) with a degree in law from the University of Rome "La Sapienza", he held a number of positions both there and at the LUISS "Guido Carli" in Rome regarding specifically the field of commercial law. From 1990 to 1992 he was the academic coordinator of the course for corporate lawyers organized by the LUISS business school. A lawyer and the author of several publications, since November 2001 he has been a member of the committee on the reform of civil trials instituted by the Minister of Justice and since March 2002 has taught at the Civil Service School. Since December 1994 he has been an extraordinary member of the Technical Council of the Communications Ministry and since April 2003 has been on the committee of experts of the High Commission for the coordination of public finance and the tax system. A member of the board of directors of the Italian Postal Service (from May 2002 to May 2005), he has subsequently held important positions in several companies of such group, including the chairmanship of BancoPosta Fondi SGR (since April 2003) and Postecom (from July 2002 to April 2003). He has been a Director of Enel since May 2005.

All Directors dedicate the time necessary for the fruitful performance of their duties – considering, among other things, the positions they hold outside the Enel Group – since they are well aware of the responsibilities connected with their position. They are kept constantly informed by the corporate departments concerned of the main legislative and regulatory changes regarding the Company and the discharge of their duties.

Directors perform their duties with full knowledge of the facts and in complete autonomy, pursuing the objective of creating value for shareholders.

### **Board Meetings and the role of the Chairman**

In 2005 the Board of Directors held 21 meetings, which lasted an average of more than 2 hours and 30 minutes. Director participation was regular and the meetings were also attended by the Board of Statutory Auditors and by the magistrate representing the Court of Accounts. For 2006, 16 Board meetings have already been scheduled.

The activities of the Board of Directors are coordinated by the Chairman, who calls its meetings, establishes their agenda, and presides over them, ensuring that – except in cases of urgency and necessity – the necessary documents and information are provided to the Board's members in time for the Board to express its informed opinion on the matters under examination. He also ascertains whether the Board's resolutions are implemented, chairs Shareholders' Meetings and – like the Chief Executive Officer – is empowered to represent the Company legally.

In short, the Chairman's role is to stimulate and supervise the functioning of the Board of Directors as part of the fiduciary powers that make him the overseer for all shareholders of the legality and transparency of the Company's activity.

According to a Board resolution of November 2005, the Chairman is also entrusted with the duties of (i) participating in the formulation of corporate strategies in agreement with the Chief Executive Officer, the powers granted the latter by the Board of Directors being understood, as well as (ii) overseeing auditing in accordance with the Chief Executive Officer, with the internal auditing department remaining under the latter. In this regard, however, it is provided that decisions concerning the appointment and revocation of the head and top executives of the aforesaid department are to be made jointly by the Chairman and the Chief Executive Officer. Finally, in agreement and coordination with the Chief Executive Officer, the Chairman maintains relations with institutional bodies and authorities.

#### Evaluation of the functioning of the Board of Directors

In 2004 the Board of Directors entrusted a company specialized in the field with the task of carrying out a board review, in line with the most advanced international corporate governance practices. In view of the fact that a new Board was to be elected because of the expiry of its term in May, in 2005 the Board of Directors refrained from commissioning a new board review, considering it preferable to defer the same in order to give the members of the Board time to become sufficiently acquainted with the Company and, at the same time, to allow the Board to develop appropriate mechanisms for its functioning.

Following up on the needs that emerged from the board review conducted in 2004, it was considered in any case advisable to organize again in 2005 a special strategic meeting, which took place in September and was dedicated to the analysis and in-depth study of the Company's and the Group's long-term strategies by the Board of Directors.

#### Non-executive Directors

The Board of Directors is made up mainly of non-executive members (not holding operating and/or executive positions in the Company), so as to ensure, through their number and authority, that their opinions carry significant weight in the Board's decision-making process.

Non-executive Directors contribute their specific expertise to Board discussions, thus facilitating the examination of the issues under discussion from different points of view and the consequent adoption of resolutions that are fully informed, carefully considered and in line with the interests of the Company. With the exception of the Chief Executive Officer, the other eight current members of the Board of Directors (Piero Gnudi, Giulio Ballio, Augusto Fantozzi, Alessandro Luciano, Fernando Napolitano, Francesco Taranto, Gianfranco Tosi, and Francesco Valsecchi) are all to be considered non-executive. It should be noted in this regard, in effect, that the Chairman does not hold an executive position, because, in the light of the principles stated in the edition of the Self-regulation Code applicable for fiscal year 2005, important as they are, the aforesaid corporate functions – connected both with the role of ensuring proper corporate governance in the Board of Directors entrusted to him by the provisions of the bylaws and with the duties regarding the formulation of corporate strategies and

supervision of auditing assigned him by the Board itself – do not take the form of specific managerial powers.

**Independent Directors** On the basis of the information provided by the individuals concerned and implementing the amendments made to the Self-regulation Code of listed companies, in December 2002, March 2004, March 2005, and March 2006 the Board of Directors attested that all the non-executive Directors possessed the requisite of independence.

Specifically, Directors qualify as independent who:

- (i) do not (directly, indirectly or on behalf of third parties) have, nor have recently had, financial relations with the Company, its subsidiaries, its executive Director or the controlling shareholder of such importance as to influence their independence of judgment;
- (ii) do not hold (directly, indirectly or on behalf of third parties) an amount of shares in the Company that would allow them to exercise control or considerable influence over it, even through shareholders' agreements;
- (iii) are not part of the immediate family of the executive Director or of individuals who are in the situations described in points (i) and (ii) above.

Even though independent judgment characterizes the activity of all the Directors, whether executive or not, the presence of Directors who qualify as "independent" according to the above definition – whose role on both the Board of Directors and its Committees is significant – is deemed a suitable means of ensuring an adequate balance of the interests of all the shareholders.

It should be noted that, when the aforesaid review was last carried out, in March 2006, the Board of Directors ascertained that all the non-executive Directors also possessed the requisites of independence provided for the statutory auditors of listed companies, in accordance with the recent amendments of the Unified Financial Act.

## Committees

### Compensation Committee

As early as January 2000 a special Compensation Committee was formed within the Board of Directors, with the task of making proposals to the Board concerning (i) the compensation of the Chief Executive Officer and the other Directors holding specific offices, as well as (ii) the determination of the compensation criteria for top Company and Group executives, on the basis of directions provided by the Chief Executive Officer.

Also during 2005, the Compensation Committee was made up entirely of non-executive and independent Directors. Specifically, during 2005 the members of the Committee were (i) Francesco Taranto (in the role of coordinator), Mauro Miccio, and Fernando Napolitano in the period from

January to May and (ii) Francesco Taranto (in the role of coordinator), Giulio Ballio, Fernando Napolitano, and Gianfranco Tosi as from July.

In 2005 the Committee held 13 meetings – which were regularly attended by its members and lasted an average of 1 hour and 20 minutes – and called on external advisors at the Company's expense.

As part of its duties, the Compensation Committee plays a central role in the implementation of special stock option plans addressed to executives and conceived as instruments for providing incentives to Group executives and strengthening their loyalty, aimed at attracting and motivating human resources with adequate ability and experience and further developing their sense of belonging to the Group and ensuring their constant, enduring effort to create value. The 2005 stock option plan – approved by the Board of Directors as proposed by the Compensation Committee – also had among its beneficiaries the Chief Executive Officer in his capacity as General Manager.

As an additional function with respect to those provided for in the Self-regulation Code of listed companies, the Compensation Committee assists the Chief Executive Officer and the relevant corporate departments in developing the potential of the Company's managerial resources, recruiting talented people, and promoting related initiatives with universities.

During 2005 the Compensation Committee – in addition to elaborating the content of the stock option plan for that year – worked on establishing the applicative aspects of the variable component of the compensation of the Chairman and the Chief Executive Officer, identifying in particular the annual economic and managerial objectives to assign them and checking if the latter are attained. The Committee also redefined the normative position and pay of the Chairman and the Chief Executive Officer for the period 2005-2008, in order to ensure that they are in line with the conditions found on the market for similar positions. Finally, the Committee also analyzed the remuneration policies and methods of evaluation regarding the management of the Company's and the Group's executives, further examining the ways in which the Company could adopt a long-term incentive plan as an alternative or supplement to the stock option plans.

### Internal Control Committee

As early as January 2000 a special Internal Control Committee was also formed within the Board of Directors to advise and make proposals, with the following specific duties, as updated in December 2002 in order to incorporate the amendments of the Self-regulatory Code of listed companies:

- > to assist the Board of Directors in establishing the guidelines for the internal audit system and in periodically checking the adequacy and the actual functioning of the latter;
- > to evaluate the audit working plan drawn up by the executive in charge of internal auditing and receive his periodic reports;
- > to evaluate, together with the accounting heads of the Company and the external auditor, the adequacy of the accounting standards used and their uniformity for the purpose of preparing the consolidated financial statements;

- > to evaluate the proposals made by external auditors applying for appointment, as well as the audit plan prepared for the external audit and the results contained in the external auditor's letter and report;
- > to report periodically to the Board of Directors on the work performed and the adequacy of the internal audit system;
- > to perform any other task delegated by the Board of Directors, in particular concerning relations with the external auditor.

Also during 2005 the Internal Control Committee was made up entirely of non-executive and independent Directors. Specifically, during 2005 the Committee was composed of (i) Piero Gnudi (in the role of chairman), Franco Morganti, and Gianfranco Tosi during the period from January to May and (ii) Piero Gnudi (in the role of chairman), Augusto Fantozzi, Alessandro Luciano, and Francesco Valsecchi as from July.

In 2005 the Committee held 7 meetings, which were regularly attended by its members and lasted an average of 1 hour and 30 minutes. The Chairman of the Board of Statutory Auditors participated in the Committee meetings in consideration of the specific duties regarding the supervision of the internal audit system entrusted to the Board of Statutory Auditors by the current legislation on listed companies. During 2005 the Internal Control Committee concentrated on evaluating (i) the working plans prepared by both the executive in charge of internal auditing and the external auditor, as well as (ii) the results of the auditing carried out during the year and (iii) the letter containing the external auditor's suggestions regarding the fiscal year concerned. The Committee also attended to the carrying out of preliminary activities as part of the procedure for assigning the independent audit, examined several supplementary auditing tasks regarding the Group to assign to the independent auditor, supervised the preparation of the Sustainability Report, and monitored observance of the compliance program adopted pursuant to Legislative Decree 231 of June 8, 2001, as well as seeing to the updating of the program itself.

## Board of Statutory Auditors

According to the provisions of the Company's bylaws, the Board of Statutory Auditors consists of three regular Auditors and two alternates, who are appointed for a period of three years and may be re-elected when their term expires.

In order to adjust its governance rules to the legislation of the United States contained in the Sarbanes-Oxley Act – which applies to Enel in consequence of the listing of its shares on the New York Stock Exchange in the form of ADRs – during 2005 the Company strengthened the supervisory duties already entrusted to the Board of Statutory Auditors by Italian law, in light of the US regulations on audit committees.

As from July 2005, therefore, in connection with the provisions of the US regulations on audit committees, the Board of Statutory Auditors has also had the following duties: (i) to express its binding

opinion regarding the appointment, the determination of the fees, and the possible revocation of the assignment of the independent auditor; (ii) to supervise the work of the independent auditor and to approve in advance the assignment to the latter of additional tasks, which in any case must concern accounting; and (iii) to supervise corporate procedures governing whistle blowing concerning accounting practices and the internal audit system, with the possibility of availing itself of external consultants. All the members of the Board of Statutory Auditors must possess the requisites of honorableness and professionalism required by special legislation of the statutory auditors of companies with listed shares, as supplemented by special provisions of the bylaws. Furthermore, according to the bylaws, they may not hold the office of regular statutory auditor in more than four companies not controlled by Enel that issue securities listed on regulated markets.

As in its provisions for the Board of Directors, the bylaws provide that the appointment of the entire Board of Statutory Auditors take place according to the slate-vote mechanism, which aims to ensure the presence on the Board of Statutory Auditors of a regular Auditor and an alternate Auditor designated by minority shareholders.

This electoral system provides that slates of candidates may be presented by shareholders who, alone or together with other shareholders, represent at least 1% of the share capital. The slates must be filed at the Company's registered office and published in daily newspapers with nationwide circulation at least 10 days before the date of the shareholders' meeting. In order to ensure a transparent procedure for the appointment of the Board of Statutory Auditors, exhaustive information about the personal and professional characteristics of the candidates must be filed at the Company's registered office at the same time as the slates, as well as published immediately on the Company's website, according to a specific note contained in the notice of the meeting.

Having been appointed by the Ordinary Shareholders' Meeting of May 21, 2004, the incumbent Board of Statutory Auditors has a term that will expire when the financial statements for 2006 are approved. The Chairman of the Board of Statutory Auditors appointed by the aforesaid Shareholders' Meeting, Angelo Provasoli, resigned in March 2005 (but with effect as from the approval of the financial statements for 2004) because of the intense activity in consequence of his appointment as president of Bocconi University in Milan, and was thus replaced by the Ordinary Shareholders' Meeting of May 26, 2005. The Board of Statutory Auditors thus currently consists of the following regular members, for each of whom a brief professional profile and (where possible) the indication of the slate on which he ran for office are provided.

> **Eugenio Pinto, 46, Chairman (designated by the Ministry for the Economy and Finance).**

A graduate with honors in economics and commerce (1983) of the University of Rome "La Sapienza", he is currently a professor of business economics in the economics department of the LUISS "Guido Carli". The author of numerous publications, he has been a member of the group of experts on lending and saving set up by the Minister of the Treasury, as well as of the expert committee instituted to advise the Treasury Department with regard to bank foundations. He was also a member

of the Zamagni Committee (instituted by the Minister of Finance to draw up tax regulations for non-profit organizations) and a consultant of the "Euro Committee" (established at the Ministry of the Treasury and entrusted with drawing up the regulations that governed the introduction of the European single currency in Italy). He is currently a member of the executive committee of the "Organismo Italiano di Contabilità" (the Italian standard setter on accounting principles), as well as of the expert committee of the "Cirsfid" at the University of Bologna. A certified public accountant, he also consults on economic and financial matters for important public and private clients. He is currently a regular statutory auditor of, among others, Mediobanca, Alleanza Assicurazioni (Assicurazioni Generali group), and Sofid (ENI Group), as well as chairman of Astaldi's board of statutory auditors. He has been a regular statutory auditor at the Banca di Roma, the Banca Nazionale dell'Agricoltura (Antonveneta Group), and chairman of the board of statutory auditors of Agip Petroli (ENI Group). He has been Chairman of Enel's Board of Statutory Auditors since May 2005.

> **Carlo Conte, 58, regular Auditor (designated on the slate presented by the Ministry for the Economy and Finance).**

After graduating in economics and commerce at "La Sapienza" University in Rome he has remained active in the academic world. He has taught at the University of Chieti (1988-1989) and the LUISS "Guido Carli" in Rome (1989-1995) and currently teaches governmental accounting at the Civil Service School and the School of Management at the LUISS, as well as administration and governmental accounting at Bocconi University in Milan. A certified public accountant, he is also the author of a number of publications. In 1967 he started his career in the Civil Service at the Government Accounting Office, becoming a General Manager in 2002. He currently represents the Office on a number of commissions and committees and in various research and work groups, as well as representing Italy on several committees of OECD. He has also been and still is a statutory auditor in a number of bodies, institutions, and companies. He has been a member of Enel's Board of Statutory Auditors since May 2004.

> **Franco Fontana, 62, regular Auditor (designated on the slate presented by institutional investors).**

A certified public accountant and professor of economics and business management, since 1973, he has taught at a number of Italian universities and has been the dean of the Department of Economics at the LUISS "Guido Carli" in Rome since 1995. He has been director of the School of Management of the aforesaid University since 1994. He has served furthermore as a member of several commissions for the reorganization of the Civil Service (Ministry of the Postal Service and Telecommunications, Ministry of Finance, Ministry of Industry and Ministry of Health). From 1994 to 1997 he was chairman of the Cassa di Risparmio of the Province of L'Aquila. A member of Enel's Board of Statutory Auditors since 2001, he is the author of numerous publications on the subjects of business management and organization.

In 2005 the Board of Statutory Auditors held 18 meetings, which lasted an average of about 2 hours and were regularly attended by the regular Auditors. A magistrate representing the Court of Accounts was also present at the meetings.

## Internal audit system

With regard to internal auditing, several years ago the Group adopted a special system aimed at (i) checking the adequacy of Group procedures with regard to effectiveness, efficiency and costs, (ii) ensuring the reliability and correctness of accounting records, as well as the safeguard of Company and Group assets, and (iii) ensuring that operations comply with internal and external regulations, as well as with corporate directives and guidelines for sound and efficient management.

The internal audit system of the Group is divided into two distinct areas of activity:

- > “line auditing”, made up by the whole of auditing activities that individual operating units or Group companies carry out on their own processes. Such auditing activities are primarily the responsibility of operating executives and are considered an integral part of every corporate process;
- > “internal auditing”, entrusted to the Company’s related department, is aimed essentially at the identification and containment of corporate risk of any nature. Such objective is pursued through the monitoring of line auditing, both in terms of the adequacy of the audits themselves and of the results actually achieved by their application. This audit activity is therefore applied to all corporate processes of the Company and of Group companies. The personnel in charge of said processes is responsible for indicating both the corrective actions deemed necessary and for carrying out follow-up actions aimed at checking the results of the measures suggested.

Responsibility for the internal audit system is entrusted to the Board of Directors, which – with the assistance of the Internal Control Committee – establishes its guidelines and periodically reviews its adequacy and actual functioning, assuring itself that the Company’s main risks are spotted and managed appropriately.

It is the duty of the Chief Executive Officer to implement the guidelines established by the Board of Directors by planning, managing and monitoring the internal audit system. He appoints the executive in charge of the latter in agreement with the Chairman and ensures that the appropriate means are available for carrying out the activities concerned.

The executive in charge of internal auditing (i.e., the head of the Company’s internal auditing department) does not report to any of the operating division heads, coordinates the departments responsible for internal auditing in Group companies, and reports regularly on his actions to the Chief Executive Officer and the Chairman, as well as every six months (except when circumstances require a more timely report) to the Internal Control Committee and the Board of Statutory Auditors.



## Transactions with related parties

Within the Company and the Group, the conditions have been established for ensuring that transactions with related parties are carried out according to criteria of procedural and substantive fairness.

With regard to procedural fairness, in the presence of transactions with related parties, it is provided that Directors who have an interest (even potential or indirect) in the transaction:

- > promptly inform the Board of Directors about the existence of such interest, specifying its nature, terms, origin and significance;
- > leave the Board meeting when the matter is discussed if such action does not leave the Board without a quorum.

Furthermore, in such cases Board resolutions must adequately explain the reasons for and advantageousness of the transaction.

With regard to substantive fairness, in order to ensure the equity of the conditions agreed upon in transactions with related parties and in the event it is required by the nature, value or other characteristics of a given transaction, it is provided that the Board of Directors avail itself of the assistance of independent experts to value the assets concerned by the transaction and to provide financial, legal or technical advice.

## Handling of confidential information

As early as February 2000 the Company's Board of Directors approved special rules for the management and handling of confidential information, which also contain the procedures to be applied for the external circulation of documents and information concerning the Company and the Group, with particular reference to price-sensitive information. The Company's Directors and Statutory Auditors are obliged to comply with the provisions contained in such rules and in any case to maintain the confidentiality of the documents and information acquired in carrying out their duties.

The rules are aimed at keeping confidential information secret, while ensuring at the same time that the information made available to the market regarding Company and Group data is correct, complete, adequate, timely and non-selective.

The rules assign to Enel's Chief Executive Officer and the chief executive officers of the Group companies the responsibility of managing the confidential information concerning their respective spheres of competence, establishing that the divulging of confidential information regarding individual subsidiaries must in any case be agreed upon with the Parent Company's Chief Executive Officer.

The rules also establish specific procedures to be followed in circulating outside the Group documents and information regarding the Company and the Group – dwelling in particular upon divulging price-sensitive information – and carefully regulate the ways in which Company and Group executives enter into contact with the press and other mass media (or financial analysts and institutional investors).

Taking into account the provisions introduced in the USA by the Sarbanes-Oxley Act – which apply to the Company in consequence of the listing of its shares on the New York Stock Exchange in the form of ADRs – in June 2003 the Board of Directors also formalized in a special document (called “Disclosure Controls and Procedures”) the practices and procedures applied within the Group with regard to corporate information, with the aim of ensuring the transparency, promptness and completeness of the documentation produced by Enel in the United States of America according to the local laws applicable to listed companies.

Complying with the regulatory provisions established by Borsa Italiana SpA, in December 2002 the Board of Directors also approved the Group’s internal dealing code, which it slightly amended in March 2004.

As from January 1, 2003 the aforesaid provisions impose on companies with listed shares an obligation towards the market of transparency about important transactions of financial instruments of the companies themselves or of their subsidiaries carried out by persons who have important decision-making powers within such companies and have access to price-sensitive information (hereinafter “important persons”).

With regard to the reference regulations set forth by Borsa Italiana, the Group’s internal dealing code is characterized by the following defining elements, which are deemed appropriate for raising its content to a high qualitative level:

- > application of the obligations of transparency regarding internal dealing to about 30 important persons in the Group (in addition to the Directors, the regular Statutory Auditors and the General Manager of the Parent Company). In order to ensure sufficient flexibility to the category of important persons, furthermore, it is provided that the aforesaid obligations of transparency may be extended to other persons, the identification of whom is entrusted individually to the Chairman and the Chief Executive Officer of the Parent Company;
- > halving of the threshold value of the transactions of which the market must be informed quarterly (from €50,000 to €25,000) or immediately after they have been carried out (from €250,000 to €125,000);
- > application of the obligations of transparency also to the exercise of stock options or pre-emptive rights by important persons;
- > prohibition for important persons to carry out transactions (other than those regarding pre-emptive rights) during the 30 days preceding the approval of the proposed financial statements of Enel SpA and the half-year report by the latter’s Board of Directors. It is also provided that the aforesaid Board may identify additional blocking periods during the year in conjunction with particular events;
- > establishment of an adequate penalty system for important persons who violate the provisions of the internal dealing code.

## Relations with institutional investors and shareholders in general

Ever since the listing of its shares on the stock market, the Company has deemed it appropriate for its own specific interest – as well as its duty with respect to the market – to establish an ongoing dialogue, based on mutual understanding of their respective roles, with its shareholders in general as well as with institutional investors. Such dialogue, in any case, was to take place in accordance with both the procedure for circulating externally documents and information regarding the Company and the Group and the principles contained in the “Guide for Information to the Market”.

In this regard, in consideration of the size of the Group, among other things, it was deemed that such dialogue could be facilitated by the creation of dedicated corporate units.

The Company therefore created (i) an investor-relations unit, which is currently a part of its Finance Department, and (ii) a unit within its Corporate Affairs Department in charge of communicating with shareholders in general.

It was also decided to further facilitate communication with investors through the creation of a special section of the Company's website ([www.enel.it](http://www.enel.it), investor relations section), providing both financial information (financial statements, half-year and quarterly reports, presentations to the financial community, analysts' estimates and information on trading of the securities issued by the Company), and up-to-date data and documents of interest to shareholders in general (press releases, the members of Enel's Boards, the Company's bylaws and shareholders'-meeting regulations, minutes of shareholders' meetings, information and documents regarding corporate governance, the code of ethics, and the compliance program pursuant to Legislative Decree 231/2001, as well as a general chart of the organization of the Group).

## Shareholders' Meetings

The suggestion contained in the Self-regulatory Code to consider shareholders' meetings privileged occasions for establishing a profitable dialogue between a company's shareholders and its board of directors (even considering the availability of a number of different communication channels between listed companies and shareholders, institutional investors and the market) was carefully evaluated and fully accepted by the Company, which – in addition to ensuring the regular attendance of its Directors at Shareholders' Meetings – deemed it advisable to adopt specific measures to adequately enhance the latter.

In effect, in line with the recommendations of the special legislation regarding listed companies, a specific provision was inserted in Enel's bylaws aimed at facilitating the collection of vote proxies from shareholders who are Group employees, thus favoring their involvement in the decision-making processes of Shareholders' Meetings.

Furthermore, in September 1999, and thus with the listing of its shares imminent, the Company adopted special regulations to ensure the orderly and efficient conduct of Shareholders' Meetings through the detailed regulation of their different phases, while respecting the fundamental right of

each shareholder to request clarification of the different matters under discussion, to express his or her opinion, and to make proposals.

Even though they do not constitute provisions of the bylaws, these regulations must be approved at an Ordinary Shareholders' Meeting, as specifically stated in the bylaws. During 2001 their content was updated in order to ensure that they correspond to the most advanced models for listed companies expressly drawn up by several professional associations (Assonime and ABI).

## Code of Ethics

Awareness of the social and environmental effects that accompany the activities carried out by the Group, as well as consideration of the importance of both a cooperative approach with stakeholders and the good name of the Group itself (in both internal and external relations), inspired the preparation of the Enel Group's code of ethics, which was approved by the Company's Board of Directors in March 2002 and updated in March 2004.

This code expresses the commitments and ethical responsibilities involved in the conduct of business, regulating and harmonizing corporate behavior according to standards requiring maximum transparency and fairness with respect to all stakeholders. Specifically, the code of ethics consists of:

- > general principles regarding relations with stakeholders, which abstractly define the reference values guiding the Group in the carrying out of its activities. Among the aforesaid principles, specific mention should be made of the following: honesty, impartiality, confidentiality, shareholder value, the value of human resources, the transparency and completeness of information, service quality, and the protection of the environment;
- > criteria of behavior towards each class of stakeholders, which specify the guidelines and rules that Enel's officers and employees must follow in order to ensure observance of the general principles and prevent the risk of unethical behavior;
- > implementation mechanisms, which describe the control system devised to ensure observance of the code of ethics and its continual improvement.

Taking into account the obligations under the Sarbanes-Oxley Act of companies with shares listed in the United States of America, in June 2004 the Board of Directors also approved an additional specific code of ethical principles regarding financial matters, which applies specifically to the Company's Chief Executive Officer and to the heads of the Finance Department and the Accounting, Planning, and Control Department.

In accordance with the requirements of US law, the code concerned consists of a series of rules aimed at reasonably preventing illegal behavior, as well as promoting:

- > honest and transparent financial management, which gives due consideration to conflicts of interests;
- > fair, comprehensible, complete, exact and prompt information in the documents sent to the authorities supervising financial markets and in all other public notices;

- > compliance with government rules and regulations;
- > the establishment of internal procedures aimed at ensuring that any violations of the provisions of the code are promptly communicated to the persons designated therein;
- > adequate public transparency regarding observance of the provisions of the code.

## Compliance Program

In July 2002 the Company launched a compliance program corresponding to the requirements of Legislative Decree 231 of June 8, 2001, which introduced into the Italian legal system a regime of administrative (but in fact criminal) liability with respect to companies for several kinds of crimes committed by their directors, executives or employees in the interest or to the benefit of the companies themselves.

The content of the aforesaid program is consistent with the provisions of the guidelines on the subject established by industry associations and with the best practice in the United States and represents another step towards strictness, transparency and a sense of responsibility in internal relations and those with the external world. At the same time, it offers shareholders adequate insurance of efficient and fair management.

The program in question consists of a "general part" (in which are described, among other things, the content of Legislative Decree 231/2001, the objectives of the program and how it works, the duties of the internal control body responsible for supervising the functioning and observance of the program, the information flows, and the penalty regime) and separate "special parts" concerning the different kinds of crimes provided for by Legislative Decree 231/2001. The "special parts" regarding crimes against the Civil Service and corporate crimes have been completed, while the other "special parts" – concerning crimes of terrorism or the overthrow of democracy, crimes against individual personality, and crimes related to market abuses – are being prepared. When such additional "special parts" are approved, an update of the "general part" and the "special parts" already adopted is planned.

Attached below are three tables that summarize some of the most significant information contained in the second section of the document.

## Structure of Enel's Board of Directors and Committees

### Board of Directors

Office	Members	Non		Independent	****	Number of other offices **	Internal Control Committee		Compensation Committee		Nomination Committee (if any)		Executive Committee (if any)	
		Executive	Executive				***	***	***	***	***	***	***	***
Chairman	Gnudi Piero <sup>(1)</sup>		X		X	100%	4	X	100%					
Chief Executive Officer/General Manager	Conti Fulvio <sup>(3)</sup>	X				100%	-							
Chief Executive Officer/General Manager	Scaroni Paolo <sup>(2)</sup>	X				100%	4							
Director	Ballio Giulio* <sup>(3)</sup>		X	X	73%	-			X	100%	Non Existent		Non Existent	
Director	Fantozzi Augusto* <sup>(3)</sup>		X	X	100%	1	X	100%						
Director	Luciano Alessandro <sup>(3)</sup>		X	X	100%	1	X	100%						
Director	Miccio Mauro <sup>(2)</sup>		X	X	100%	1			X	100%				
Director	Morganti Franco* <sup>(2)</sup>		X	X	100%	1	X	100%						
Director	Napolitano Fernando <sup>(1)</sup>		X	X	86%	2			X	100%				
Director	Taranto Francesco* <sup>(1)</sup>		X	X	100%	4			X	100%				
Director	Tosi Gianfranco <sup>(1)</sup>		X	X	100%	-	X	80%	X	100%				
Director	Valsecchi Francesco <sup>(3)</sup>		X	X	100%	1	X	100%						

Quorum required for the presentation of slates for the appointment of the Board of Directors: 1% of share capital.

Number of meetings held in 2005: Board of Directors: 21; Internal Control Committee: 7; Compensation Committee: 13; Nomination Committee: N.A.; Executive Committee: N.A.

(1) In office for all of 2005.

(2) In office until May 2005.

(3) In office from May 2005.

\* The presence of an asterisk indicates that the director was designated on a slate presented by minority shareholders.

\*\* This column shows the number of financial, banking, insurance or other large companies or companies that are listed on regulated markets, including foreign ones, in which the person concerned serves as director or member of the board of auditors.

\*\*\* In these columns, an "X" indicates the committees of which each director is a member. It should be noted that during 2005 Gianfranco Tosi was first a member of the Internal Control Committee (January-May) and then of the Compensation Committee (July-December).

\*\*\*\* These columns show the percentages of the meetings of, respectively, the Board of Directors and the committees attended by each director, taking into account the period of time during which he was in office in 2005. All absences were justified.

### Enel's Board of Statutory Auditors

Office	Members	Percentage of Board meetings attended	Number of other offices**
Chairman	Pinto Eugenio***	100%	3
Chairman	Provasoli Angelo****	100%	-
Regular Auditor	Conte Carlo	100%	-
Regular Auditor	Fontana Franco*	100%	-
Alternate Auditor	Giordano Giancarlo	N.A.	-
Alternate Auditor	Sbordoni Paolo*	N.A.	-

Quorum required for the presentation of slates for the appointment of the Board of Statutory Auditors: 1% of share capital.

Number of meetings held in 2005: 18

\* The presence of an asterisk indicates that the statutory auditor was designated on a slate presented by minority shareholders.

\*\* This column shows the number of other companies listed on regulated Italian markets in which the person concerned serves as director or member of the board of auditors.

\*\*\* In office from May 2005.

\*\*\*\* In office until May 2005.

## Other provisions of the Self-regulation Code

	Summary of the reasons for any deviation	
	YES	NO from the recommendations of the Code
<b>Delegation system and transactions with related parties</b>		
Has the board of directors delegated powers and established:		
a) their limits		X
b) how they are to be exercised		X
c) how often it is to be informed?		X
Has the board of directors reserved the power to examine and approve transactions having a significant impact on the balance sheet, income statement or cash-flow statement (including transactions with related parties)?		X
Has the board established the guidelines and criteria for identifying "significant" transactions?		X
Are the aforesaid guidelines and criteria described in the report?		X
Has the board of directors established special procedures for the examination and approval of transactions with related parties?		X
Are the procedures for approving transactions with related parties described in the report?		X
<b>Procedures of the most recent election of the board of directors and the board of statutory auditors</b>		
Were the candidacies for the office of director filed at least ten days beforehand?		X
Were the candidacies for the office of director accompanied by exhaustive information?		X
Were the candidacies for the office of director accompanied by statements as to whether or not they qualified as independent?		X
Were the candidacies for the office of statutory auditor filed at least ten days beforehand?	X	This procedure was duly observed the last time the entire board of statutory auditors was elected (2004), when the slate-vote mechanism was applied. When the chairman of the board of statutory auditors was replaced (during 2005), the candidacies were not filed beforehand because the election did not take place by slate vote.
Were the candidacies for the office of statutory auditor accompanied by exhaustive information?		X
<b>Shareholders' meetings</b>		
Has the company approved rules for shareholders' meetings?		X
Are the rules attached to the report or is it stated where they can be obtained/downloaded?		X
<b>Internal audit</b>		
Has the company appointed the person in charge of internal auditing?		X
Is the person in charge hierarchically independent of heads of operating areas?		X
Organizational position of the person in charge of internal auditing		Head of the internal auditing department
<b>Investor relations</b>		
Has the company appointed a head of investor relations?		X
Organizational unit of the head of investor relations and related contact information	<p>&gt; <b>Relations with institutional investors:</b>  Investor Relations – Viale Regina Margherita, 137 - 00198 Rome - Italy  tel. ++39.06.83053437 - fax ++39.06.83053771 - e-mail: investor.relations@enel.it</p> <p>&gt; <b>Relations with retail shareholders:</b>  Department of Corporate Affairs – Viale Regina Margherita, 137 - 00198 Rome - Italy  tel. ++39.06.83052081 - fax ++39.06.83052129 - e-mail: azionisti.retail@enel.it</p>	

## Human resources and organization

### Organization

In 2005, Enel introduced a new organizational model more appropriate to the Group's international development strategy and to the complete opening of the Italian electricity market, which is expected to take place on July 1, 2007.

In November, as authorized by the Board of Directors of Enel SpA, the International Division was established and charged with the mission of developing the organization's presence and business in the electricity and gas industry abroad, managing and optimizing international operations, defining development strategies, and balancing generation capacity in the regional markets involved.

The responsibilities related to the management of the Networks and Infrastructure and Sales Divisions have also been separated, with the latter being assigned the mission of managing the end-user electricity and gas markets in Italy, developing an integrated package of products and services, while ensuring that commercial services meet quality standards.

As a result of these developments and in view of the deconsolidation of Wind and the near total disposal of the investment in Terna, the Group is now made up of the following divisions: Generation and Energy Management, Networks and Infrastructure, Sales, and International.

The reorganization of staff functions continued in 2005 in order to ensure comprehensive, unified governance and the full implementation of efficiency improvements and performance-enhancement measures.

Following the merger of Enel.it and Enel Facility Management into Enel Servizi (formerly Ape Gruppo Enel, a subsidiary in charge of personnel management) on January 1, 2005, the Information and Communication Technology (January 1), Administration (April 1), and Services (July 1) units of the main Group companies were transferred to Enel Servizi. This corporate reconfiguration confirms the prevalently internal focus of these units, aimed at offering efficient and high-quality services to the rest of the Group.

The process of corporate streamlining also involved the Generation and Energy Management Division, with the merger, effective as of June 1, 2005, of Enel Green Power, Enel Logistica Combustibili, and Conphoebus into Enel Produzione, in line with the organizational model adopted in the sector of electricity generation, which consolidates all activities related to this business into a single area.

Furthermore, effective January 1, 2006, the engineering and construction services of Enelpower provided to the other Group companies were grouped with the plant design and development activities of Enel Produzione, leaving Enelpower responsible solely for the completion of contracts currently in progress with third parties.

Finally, the optimization of the organizational structure was also pursued with the continuation of measures aimed at improving operating processes in generation and distribution.



## Development and training

Development initiatives in 2005 focused on the increasingly individual management of human resources and the internal development of management and key professional staff. To that end, efforts have pursued the identification and description of the skills of the key positions in core and support processes as well as the extension of the process of evaluating skills, performance and potential.

Training has been organized along four main lines that are closely integrated with the organization's strategies and development policies:

- > strengthening management through action learning and learning tours for young managers already in key corporate positions;
- > supporting change management and excellence and efficiency enhancement;
- > promoting a shared Enel culture and knowledge base through corporate training (for new recruits and new middle and senior management);
- > general campaigns targeting broader employee populations, particularly the corporate social responsibility project, which involved all of the Company's middle and senior management.

For 2006, the training plans that have already been established call for further strengthening of management training and a focus on internationalization, markets, and execution speed and effectiveness.

Enel will also launch an intensive, broad-based training program on safety procedures and risk perception.

## Hiring

Personnel selection within Enel seeks to ensure that candidates selected meet the requirements of the job profiles at the various entry levels and to create the conditions to enhance Enel's appeal to the most attractive segments of the labor market.

Recruiting is focused on candidates that contact the organization at their own initiative through the dedicated section of the corporate website. The selection process is tailored according to the type and number of positions to be covered.

In 2006, we expect to complete the intensive recruiting and selection process which began in the second half of 2005 to reinforce the technical and managerial resources of the International Division.

## Compensation and incentive systems

The compensation policy for 2005 focused on:

- > strengthening the integration of compensation and evaluation processes;
- > increasing the variable component of compensation linked to company performance;
- > taking selective action with the fixed component of compensation, confirming a merit-based policy aimed at rewarding high-value skills within each professional family.

Short-term incentives continued to be based on the management-by-objectives (MBO) approach. Enel also implemented an incentives plan for part of the sales personnel.

With regard to medium to long-term incentives, a stock options plan was again implemented in 2005, involving roughly 85% of senior management.

In 2006, in confirmation of the goals pursued in recent years, we will be focusing on improving the planning process for the development and compensation of various segments of our employees. We will also consolidate and refine the methods already introduced. To that end, we have launched a review of the MBO system in order to simplify the process using information systems, as well as to streamline the tool and strengthen the process of defining and communicating objectives, all in compliance with the principles of corporate governance.

**Stock option plans** Since 2000 Enel has implemented stock option plans each year in order to give the Enel Group – in line with international business practice and the leading Italian listed companies – a means for fostering management motivation and loyalty, strengthening a sense of corporate belonging in our key personnel, and ensuring their enduring and constant effort to create value, thus creating a convergence of interests between shareholders and management.

The remainder of this section describes the features of the stock option plans adopted by Enel and still in place in 2005.

### The 2001 Plan

This initiative began in December 1999, when an Extraordinary Meeting of Enel's Shareholders authorized the Board of Directors to increase share capital one or more times and for a period of five years, pursuant to Article 2443 of the Civil Code – by a maximum total amount of 121,261,500,000 lire (and thus by slightly less than 1% of share capital at the time) through the issue of a maximum of 121,261,500 ordinary shares with a par value of 1,000 lire each, bearing full dividend rights, to be offered for subscription against payment to executives – to be selected by the Board of Directors from those performing functions that are important for attaining the Group's strategic goals – of Enel itself and/or its subsidiaries pursuant to Article 2359 of the Civil Code, with the consequent exclusion of the preemptive rights pursuant to Article 2441, last paragraph of the Civil Code and Article 134, paragraphs 2 and 3 of Legislative Decree 58 of February 24, 1998. Implementing the aforesaid Shareholders' Resolution, in April 2001 the Board of Directors approved

a stock option plan, together with Regulations that govern it. Among the beneficiaries of the plan was Enel's Chief Executive Officer in his capacity as General Manager.

The Regulations provided for the executives selected by the Board of Directors to be granted personal and non-transferable inter vivos rights (the options) to subscribe a corresponding number of newly issued ordinary Enel shares. As established by the Board of Directors, the executives were then divided into different brackets and the number of options granted to each of them was determined by applying a multiplier to the ratio between the reference gross annual compensation of the bracket concerned and the value of a three-year option, determined on the basis of market valuations. The right to subscribe the shares is subordinated to the executives concerned remaining employed within the Group, with a number of exceptions (for example, termination of employment because of retirement or permanent invalidity, exit from the Group of the company at which the executive is employed, and succession) specifically governed by the Regulations.

The Regulations also established that the options granted – in the event the conditions of exercise were met – would be exercisable as follows: (i) 20% as from the year following the one in which they were granted ("one-year options") and until the fourth year following the one in which they were granted; (ii) the remaining 80% beginning the third year following the one in which they were granted ("three-year options") and until the fourth year following the one in which they were granted. In any event, the options are exercisable each year only during the fifteen trading days on the Italian Stock Exchange following the approval of the financial statements of Enel SpA by the Annual General Meeting.

With regard to the conditions of exercise – suspensory in nature – the Regulations establish that all the options granted would become exercisable if the arithmetic average of the reference prices of Enel shares on Borsa Italiana SpA's electronic stock exchange in the last three months of the year of the grant was higher than the target price determined by the Board of Directors on the basis of analysts' consensus valuation. If the target price were not exceeded, all the one-year options and 30% of the three-year options would lapse automatically.

However, the Regulations also provided for the possibility of exercising the remaining 70% of the three-year options (and thus 56% of the total number of options granted) in the event that (i) the percentage change in the price of Enel shares on Borsa Italiana SpA's electronic stock exchange during the year in which the options were granted was greater – according to the calculation criteria set out in the Regulations – than the performance of a specific reference index determined by the Board of Directors as the average of the MIBTEL index (weighting: 50%) and the FT-SE Eurotop 300 Electricity index (weighting: 50%) and (ii) the parameter representing the actual growth in the Group's value (EVA) during the year in which the options were granted was greater than that set by the Board of Directors.

In accordance with the Regulations, the strike price of the shares was to be determined by the Board of Directors as no less than the arithmetic average of the reference prices of Enel shares on Borsa Italiana SpA's electronic stock exchange during the period between the date on which the options

were granted and the same day of the preceding solar month. Subscription of the shares at the strike price is to be charged entirely to the beneficiaries, as the Plan does not provide for any facilitated terms to be granted in this respect.

#### Developments in the 2001 stock option plan

Under the Regulations, the 2001 stock option plan involved the granting of 68,548,100 options to 381 Group executives at a strike price of €3.636. However, the review conducted to ascertain the extent to which the objectives set by the Board of Directors had been attained showed that (i) the target price had not been achieved, and thus all the one-year options (amounting to 13,709,620 options) and 30% of the three-year ones (amounting to 16,451,544 options) lapsed, while (ii) the subordinate objectives – regarding both the performance of Enel shares with respect to the benchmark and surpassing the EVA during the year in which the options were granted – had been achieved, which satisfied the conditions for exercising the remaining 70% of the three-year options. Accordingly, only 38,386,936 three-year options became exercisable under the 2001 Plan. This number was halved to 19,193,468 as a result of the reverse split of Enel shares approved by the Extraordinary Shareholders' Meeting in May 2001, effective as from July 9, 2001, on the occasion of the redenomination of share capital in euro. The reverse split also entailed the doubling of the strike price of the options from €3.636 to €7.272. Of the 19,193,468 three-year options that became exercisable, because of the early termination of employment of the related grantees (i) 2,503,326 lapsed during the period between the date of granting of the aforesaid options and the end of 2004 and (ii) 388,809 lapsed during 2005.

#### Capital increase to serve the 2001 stock option plan

As a consequence of the foregoing, in April 2001 the Board of Directors, in partial execution of the enabling authority granted it by the Extraordinary Shareholders' Meeting held in December 1999, approved a divisible capital increase (representing a maximum potential dilution of less than 0.6% of capital at the time) to serve the options granted with the stock option plan for 2001.

Specifically – taking into account the effects of the redenomination of share capital and reverse split of Enel's shares – at that time the Board of Directors approved a capital increase of a maximum amount of €34,274,050, to be subscribed by December 31, 2005, serving the options under the 2001 Plan, at a strike price of €7.272. For this plan, however, following the review conducted to ascertain the extent to which the objectives set by the Board of Directors were attained, the capital increase could be subscribed up to a maximum of €19,193,468.

In execution of the Board resolution, at the end of 2005 a total of 16,301,333 ordinary shares serving the stock options for the 2001 Plan exercised between May 27 and June 16, 2005 had been issued and subscribed.

## The 2002 Plan

In May 2001, accepting the proposals made by the Board of Directors (in consideration of the insufficiency of the remaining capital increase authorized by the shareholders in December 1999 to implement additional stock option plans), an Extraordinary Meeting of Enel's Shareholders initiated a new stock option plan, resolving:

- > to revoke, with regard to the part not yet exercised by the Board of Directors, the enabling authority to increase the share capital granted in December 1999, while confirming all the acts carried out in the exercise of this power;
- > to again grant the Board of Directors the authority to increase share capital by a maximum of €60,630,750 (slightly less than 1% of capital at the time), endowed with the same characteristics as the authority granted in December 1999 and potentially involving all the executives of Enel and/or its subsidiaries pursuant to Article 2359 of the Civil Code.

In carrying out this mandate from the shareholders, in March 2002 the Board of Directors approved the stock option plan for 2002 (supplemented in September of the same year), together with the Regulations for implementing it. The structure of the plan differs significantly with respect to the 2001 Plan and is more in line with the changed situation in the financial markets.

As in the preceding plan, the Regulations provided for the executives selected by the Board of Directors to be granted options to subscribe a corresponding number of newly issued ordinary Enel shares. As before, as established by the Board of Directors, the executives were divided into different brackets and the number of options granted to each of them was determined by applying a multiplier to the ratio between the reference gross annual compensation of the bracket concerned and the value of a three-year option, determined on the basis of its market valuation. The right to subscribe the shares continues to be subordinated to the condition that the executives concerned remain employed within the Group, with a few exceptions (such as, for example, termination of employment because of retirement or permanent invalidity, exit from the Group of the company at which the executive is employed, and succession) specifically governed by the Regulations.

The beneficiaries of the 2002 stock option plan also included those persons who had held, at different times, the position of Enel's Chief Executive Officer during that year, in their capacity as General Manager.

The Regulations also established that the options granted – in the event the conditions of exercise were met – would be exercisable as follows: 30% as from the first year following the one in which they were granted, an additional 30% as from the second year subsequent to the one in which they were granted, and the remaining 40% as from the third year following the one in which they were granted, with the requirement that the deadline for exercising all the options is the fifth year following that in which they were granted.

In any event, the options are exercisable each year only during three time windows of fifteen trading days on the Italian Stock Exchange following: (i) the Board of Directors' examination of the preliminary consolidated data, (ii) the Annual General Meeting's approval of the financial statements of Enel SpA,

and (iii) the Board of Directors' approval of the third-quarter report.

With regard to conditions of exercise – suspensory in nature – the Regulations establish that all the options granted would become exercisable in the event that (i) Group EBITDA for the year in which the options were granted as estimated in the budget approved by the Board of Directors is exceeded and (ii) the percentage change in the price of Enel shares recorded on Borsa Italiana's electronic Stock Exchange during the year in which the options were granted was greater – according to the calculation criteria set out in the Regulations – than the performance of a specific reference index, determined by the Regulations as the average of the MIBTEL index (weighting: 50%) and the FT-SE Eurotop 300 Electricity index (weighting: 50%). If both objectives are not jointly achieved, all the options automatically lapse, there being no provision for a mechanism allowing them to be recovered.

As in the 2001 Plan, the Regulations established that the strike price of the shares was to be determined by the Board of Directors as no less than the arithmetic average of the reference prices of Enel shares on Borsa Italiana SpA's electronic Stock Exchange during the period between the date on which the options were granted and the same day of the preceding solar month. Subscription of the shares at the strike price is to be charged entirely to the beneficiaries, as the Plan does not provide for any facilitated terms to be granted in this respect.

#### **Developments in the 2002 stock option plan**

Under the Regulations, the 2002 stock option plan involved the granting of a total of 41,748,500 options to 383 Group executives at a strike price of €6.426 (€6.480 for the options granted in September 2002). The review conducted by the Board of Directors to verify satisfaction of the conditions of exercise ascertained that during the year in which the options were granted both objectives – surpassing Group EBITDA and the performance of Enel shares with respect to the benchmark – were achieved, enabling exercise of all the options. Because of the early termination of employment of the related grantees, of the 41,748,500 options that were granted and became exercisable (i) 4,824,000 lapsed in the period between the date of granting of the options and the end of 2004 and (ii) 48,500 lapsed during 2005.

#### **Capital increase to serve the 2002 stock option plan**

As a consequence of the foregoing, in April 2003 the Board of Directors, in partial execution of the enabling authority granted it by the Extraordinary Shareholders' Meeting held in May 2001, approved a divisible capital increase (representing a maximum potential dilution of less than 0.7% of capital at the time) to serve the options granted with the stock option plan for 2002.

Specifically, on this occasion the Board of Directors approved a capital increase of a maximum of €41,748,500, to be subscribed by December 31, 2007, serving all the options granted under the 2002 Plan (which had become exercisable), at a strike price amounting to (i) €6.426 for the 39,245,000 options granted in March 2002 and (ii) €6.480 for the 2,503,500 options granted in September 2002. In execution of the Board resolution, at the end of 2005 a total of 10,697,094 ordinary shares serving

the stock options for the 2002 plan exercised between February 3 and February 23, 2005, May 27 and June 16, 2005 and November 10 and November 30, 2005 had been issued and subscribed. They add to the 24,104,556 ordinary shares issued and subscribed serving the same number of stock options under the 2002 Plan exercised in 2004.

## The 2003 Plan

In May 2003, accepting the proposals made by the Board of Directors (in consideration of the insufficiency of the residual amount of the preceding authorization, granted by the shareholders in May 2001, to establish additional stock option plans) an Extraordinary Meeting of Enel's Shareholders initiated a new stock option plan, resolving:

- > to revoke, with regard to the part not yet exercised by the Board of Directors, the enabling authority to increase share capital granted in May 2001, while confirming all the acts carried out in the exercise of this power;
- > to grant the Board of Directors new authority to increase share capital by a maximum of €47,624,005 (about 0.8% of capital at the time), endowed with the same characteristics as the authority granted in December 1999 and May 2001 and to be used to serve the stock option plan for 2003, as already approved by the Board of Directors in April 2003.

The 2003 Plan – whose beneficiaries include Enel's Chief Executive Officer in his capacity as General Manager – is founded on the same rationale as the 2002 Plan, following the provisions of the implementing Regulations with regard to the various features of the plan described earlier (specifically, the criteria that govern both the granting of the options to the beneficiaries of the Plan and the preservation of entitlement to exercise the options, the vesting period of the options and the exercise of the options in pre-set temporal “ windows”, the conditions for exercising the options, the procedures for determining the strike price of the shares and the absence of facilitated conditions for payment by the executives participating in the plan).

### Developments in the 2003 stock option plan

The stock option plan for 2003 involved the granting of a total of 47,624,005 options to 549 Group executives at a strike price of €5.240. The review carried out by the Board of Directors to verify the satisfaction of the conditions of exercise ascertained that both objectives – surpassing Group EBITDA during the year in which the options were granted and the performance of Enel's shares with respect to the benchmark index described in the Regulations that implement the plan – were achieved. It should be noted that the period for measuring the performance of both Enel shares and the benchmark – which, according to the Regulations, was to expire on December 31, 2003 – was extended by the Board of Directors until March 26, 2004. This was done in order to permit normal trading conditions to return and thus allow a more objective evaluation of whether the targets had been achieved in view of the placement of Enel shares with institutional investors carried out by the Ministry for the Economy and Finance in October 2003, which in itself was extraneous to the management of Enel,

but because of its extraordinary size had a considerable influence on the performance of the shares. Therefore the conditions for exercising all the options granted under the 2003 Plan were satisfied. Because of the early termination of employment of the related grantees, of the 47,624,005 options that were granted and became exercisable (i) 3,237,700 lapsed during the period between the date of granting of the options and the end of 2004 and (ii) 50,726 lapsed during 2005.

#### Capital increase to serve the 2003 stock option plan

In April 2004 the Board of Directors, entirely exercising the enabling authority granted it by the Shareholders' Meeting held in May 2003, approved a divisible, paid capital increase (entailing a maximum potential dilution amounting to about 0.8% of capital at the time) to serve the options granted under the 2003 Plan. This increase, amounting to a maximum of €47,624,005, is to be subscribed by December 31, 2008 and serves all the options assigned under the 2003 Plan, which have become exercisable and have a strike price of €5.240.

To implement this Board resolution, in 2005 14,158,373 ordinary shares were issued and subscribed to serve the equal number of stock options in the 2003 Plan that were exercised in the periods February 3 to February 23, 2005, May 27 to June 16, 2005, and November 10 to November 30, 2005. They add to the 16,342,119 ordinary shares issued and subscribed to serve an equal number of stock options in the 2003 Plan exercised during 2004.

#### The 2004 Plan

In May 2004, an Extraordinary Meeting of the Shareholders of Enel initiated a new stock option plan by resolving to grant the Board of Directors a new authorization to increase share capital by a maximum of €38,527,550 (about 0.6% of capital at the time), with characteristics similar to those of the previous authorizations granted in December 1999, May 2001, and May 2003, and to be used to serve the 2004 stock option plan, as already approved by the Board of Directors in March 2004.

The 2004 Plan – whose beneficiaries include Enel's Chief Executive Officer in his capacity as General Manager – is founded on the same rationale as the 2002 and 2003 plans, following most of the provisions of their implementing Regulations and departing from them only in manner described below. In particular, although the division of the beneficiaries of the Plan into brackets is maintained, provision is made for granting the options using proportional criteria and no longer through the application of a multiplier of the ratio between the reference annual gross compensation of the bracket to which the executive concerned belongs and the value of a three-year option as determined on the basis of market valuations.

Furthermore, the Regulations establish that – once the conditions of exercise have been satisfied – 15% of the options granted may be exercised as from the first year subsequent to the grant year, an additional 15% as from the second year subsequent to the grant year, an additional 30% as from the third year subsequent to the grant year, and the remaining 40% as from the fourth year subsequent to the grant year, with the deadline for exercising all the options being the fifth year subsequent to the grant year.



The temporal “windows” for exercising the options have also been eliminated. The options may be exercised each year at any time, with the exception of two blocking periods lasting indicatively one month before the approval of the draft annual financial statements of Enel SpA and the half-year report by the Board of Directors.

With regard to the conditions of exercise – which are suspensory in nature – while the Group EBITDA target has not changed, that connected with the performance of Enel shares with respect to the benchmark index is considered for the first time from a total shareholder return perspective, i.e. taking into account (both for Enel shares and for the benchmark) of the effect of the reinvestment of the respective gross dividends in the same securities. This change was adopted to ensure that the actual return that Enel shares are capable of earning for their shareholders, including in terms of the distribution of dividends, is consistent with the actual return, in the same terms, on the reference securities.

#### **Developments in the 2004 stock option plan**

The stock option plan for 2004 involved the granting of a total of 38,527,550 options to 640 Group executives at a strike price of €6.242. The review carried out by the Board of Directors to verify the materialization of the exercise conditions ascertained that both objectives – surpassing Group EBITDA during the year in which the options were granted and the performance of Enel shares with respect to the benchmark index described in the implemental Regulations of the Plan – were achieved. It should be noted that the period for measuring the performance of both Enel's shares and the reference index – which, according to the Regulations, was to expire on December 31, 2004 – was extended by the Board of Directors until March 25, 2005 in order to ensure normal trading conditions and thus permit an objective evaluation of whether the target had been achieved. This decision was prompted by the placement of Enel shares through a global offering carried out by the Ministry for the Economy and Finance in October 2004, which in itself was extraneous to the management of Enel and, because of its extraordinary size, could have distorted the performance of the shares.

The conditions for exercising all the options assigned under the 2004 Plan were therefore satisfied. Because of early termination of the employment of the related grantees, of the 38,527,550 options that were granted and became exercisable (i) 1,231,000 lapsed in the period between the date on which the options were granted and the end of 2004 and (ii) 394,500 lapsed during 2005.

#### **Capital increase to serve the 2004 stock option plan**

In March 2005 the Board of Directors, entirely exercising the authority granted it by the Shareholders' Meeting held in May 2004, approved a divisible, paid capital increase (entailing a maximum potential dilution of 0.6% of capital at the time) to serve the options granted under the 2004 Plan. This increase, amounting to a maximum of €38,527,550, is to be subscribed by December 31, 2009 and serves all the options assigned under the 2004 Plan (insofar as they have become exercisable) at a strike price of €6.242.

To implement this Board resolution, in 2005 12,392,982 ordinary shares were issued and subscribed

to serve the equal number of stock options in the 2004 Plan that were exercised during the period from April 20 to December 31, 2005.

### The 2005 Plan

In May 2005 an Extraordinary Meeting of Enel's Shareholders initiated a new stock option plan by resolving to grant the Board of Directors a new authorization to increase the share capital by a maximum of €28,757,000 (less than 0.5% of capital at the time), with characteristics similar to those of the previous authorizations granted in December 1999, May 2001, May 2003, and May 2004 and to be used to serve the 2005 stock option plan, as already approved by the Board of Directors in March 2005. The 2005 plan – whose beneficiaries include Enel's Chief Executive Officer in his capacity as General Manager – is founded on the same rationale as the 2002, 2003, and 2004 plans, following the provisions of the implementing Regulations of the last of these with regard to features described earlier.

#### Developments in the 2005 stock option plan

The 2005 Plan involved the granting of a total of 28,757,000 options to 448 Group executives at a strike price of €7.273. The review carried out by the Board of Directors to verify the satisfaction of the exercise conditions ascertained that, during the year in which the options were granted, the Group EBITDA target was exceeded, but the performance of Enel shares was inferior to that of the benchmark specified in the Regulations. This caused all the options granted under the 2005 Plan to automatically lapse.

#### Payment of a bonus connected with the portion of the dividends attributable to asset disposals, to be made in conjunction with the exercise of stock options

In March 2004, the Board of Directors voted to grant a special bonus, beginning in 2004, to the beneficiaries of the various stock option plans who exercise the options granted to them, establishing that the amount is to be determined each time by the Board itself when it adopts resolutions concerning the allocation of earnings and is based on the portion of the "disposal dividends" (as defined below) distributed after the granting of the options.

The rationale underlying this initiative is that the portion of dividends attributable to extraordinary transactions regarding the disposal of property and/or financial assets ( "disposal dividends") should be considered a form of return to shareholders of part of the value of the Company, and as such capable of affecting the performance of the shares. The beneficiaries of the bonus are thus the beneficiaries of the stock option plans who – either because they choose to do so or because of the restrictions imposed by the exercise conditions or the vesting periods – exercise their options after the ex dividend date of the "disposal dividends" and therefore could be penalized. The bonus is not paid, however, for the portion of other kinds of dividends, such as those generated by ordinary business activities or reimbursements associated with regulatory measures.

Essentially, when beneficiaries of the stock option plans have exercised the options granted to them, since 2004 they have been entitled to receive a sum equal to the "disposal dividends" distributed by

Enel after the options have been granted but before they have been exercised. The bonus will be paid by the company of the Enel Group that employs the beneficiary and is subject to ordinary taxation as income from employment.

Under these rules, to date the Board of Directors has approved: (i) a bonus amounting to €0.08 per option exercised, with regard to the dividend (for 2003) of €0.36 per share payable as from June 24, 2004; (ii) a bonus amounting to €0.33 per option exercised, with regard to the interim dividend (for 2004) of the same amount per share payable as from November 25, 2004; (iii) a bonus amounting to €0.02 per option exercised, with regard to the balance of the dividend (for 2004) of €0.36 per share payable as from June 23, 2005; and (iv) a bonus amounting to €0.19 per option exercised, with regard to the interim dividend (for 2005) of the same amount per share payable as from November 24, 2005.

It should be noted that the overall dilution of share capital at December 31, 2005 attributable to the exercise of the stock options granted under the various plans amounts to 1.53% and that further developments in the plans could, in theory, increase the dilution up to a maximum of 2.17%.

The following table summarizes developments in the stock option plans in 2005.

### Development of the stock option plans in 2005

Rights	The 2001 Plan (year of expiration: 2005)			The 2002 Plan (year of expiration: 2007)			The 2003 Plan (year of expiration: 2008)			The 2004 Plan (year of expiration: 2009)			The 2005 Plan (year of expiration: 2010)		
	Number of options	Exercise price (euro)	Market price (euro)	Number of options	Average exercise price (euro)	Market price (euro)	Number of options	Exercise price (euro)	Market price (euro)	Number of options	Exercise price (euro)	Market price (euro)	Number of options	Exercise price (euro)	Market price (euro)
Rights outstanding at January 1, 2005	16,690,142	7.272	7.240	12,819,944	6.430	7.240	28,044,186	5.240	7.240	37,296,550	6.242	7.240	-	-	-
New rights granted in 2005	-	-	-	-	-	-	-	-	-	-	-	-	28,757,000	7.273	7.425 <sup>(1)</sup>
Rights exercised in 2005	16,301,333	7.272	7.432 <sup>(1)</sup>	10,697,094	6.431	7.494 <sup>(1)</sup>	14,158,373	5.240	7.449 <sup>(1)</sup>	12,392,982	6.242	7.114 <sup>(1)</sup>	-	-	-
Rights lapsed in 2005	388,809	7.272	7.322 <sup>(1)</sup>	48,500	6.426	7.229 <sup>(1)</sup>	50,726	5.240	7.229 <sup>(1)</sup>	394,500	6.242	7.084 <sup>(1)</sup>	28,757,000 <sup>(2)</sup>	7.273	6.640 <sup>(1)</sup>
Rights outstanding at December 31, 2005	-	7.272	6.632	2,074,350	6.426	6.632	13,835,087	5.240	6.632	24,509,068	6.242	6.632	-	7.273	6.632
> exercisable at December 31, 2005	-	7.272	6.632	2,074,350	6.426	6.632	2,203,002	5.240	6.632	4,718,900	6.242	6.632	-	7.273	6.632
Fair value on date granted		€ 0.48			€ 0.17			€ 0.37			€ 0.18			€ 0.27	
Volatility		27%			28%			28%			17%			15%	

(1) Market prices are calculated on the basis of Consob instructions set out in Recommendation no. 11508 of February 15, 2000 regarding disclosures on stock option plans.

(2) Declared lapsed by the Enel Board of Directors at the meeting of March 22, 2006.

## Stock options granted to the General Manager

The following table sets out information concerning the stock options belonging to the persons who held the position of General Manager (and Chief Executive Officer) of Enel SpA at some point in 2005. Each option reported here corresponds to the subscription of one share.

Name	Position held	Options held at the start of 2005			Options granted during 2005			Options exercised during 2005			Options lapsed during 2005	Options held at the end of 2005		
		Number of options	Average exercise price (euro)	Average expiration	Number of options	Average exercise price (euro)	Average expiration	Number of options	Average exercise price (euro)	Average market price during the year (euro)	Number of options	Number of options	Average exercise price (euro)	Average expiration
Paolo Scaroni	General Manager of Enel SpA (until May 30, 2005)	6,441,400	5.822	2007	2,500,000	7.273	2010	6,441,400	5.822	7.468	2,500,000	-	-	-
Fulvio Conti <sup>(1)</sup>	General Manager of Enel SpA (from May 30, 2005)	2,120,376	6.124	2008	600,000	7.273	2010	689,416	6.509	7.476	600,000	1,430,960	5.939	2009

(1) All the options reported in the table were granted to Fulvio Conti in his capacity as head of the Administration, Finance and Control Department of Enel SpA, a position he held until June 20, 2005.

## Labor relations

### Electricity industry

In 2005, the implementation of the new divisional structure continued throughout the organization. As part of this initiative, Enel dialogued with the trade unions regarding the transfer of processes and human resources to Enel Servizi (administration, services, and information technology) and the corporate rationalization of the Generation and Energy Management Division (mergers into Enel Produzione). A significant portion of the regional agreements were then renewed with regard to the reimbursement of travel expenses, and discussions were held regarding performance bonuses. The complex negotiations also continued regarding the issues of social institutions and trade union activities, which led to the signing of a Memorandum of Understanding, and preparations have begun for the transfer of the electricity distribution business unit to the Autonomous Province of Trento. Finally, in September 2005, at the request of the European Federation of Public Service Unions (EPSU), the preparatory stages were begun for the establishment of the European Corporate Committee within Enel. At the industry level, the difficult negotiations have continued regarding the right to strike (including "virtual" strikes), and work has begun to renew the Italian national collective bargaining agreement, with the trade unions presenting their requests for renewal, followed by a presentation of employers' position.

### Gas industry

At the corporate level, discussions were held with trade unions on the process of integrating the newly acquired companies into Enel's gas business and the rationalization projects aimed at merging the existing companies into Enel Gas (sales) and Enel Rete Gas (distribution). The process of transferring activities and staff to Enel Servizi was also begun. An agreement was then signed regarding the performance bonus and the harmonization of certain benefits with the finalization of previous agreements. At the industry level, on June 22, 2005, a national agreement was reached on the need to wind down the Gas Fund and to move towards a supplementary retirement benefit system. The parties signing the document presented a proposal for legislation based on the agreement to the Directorate-General of the Ministry of Labor. Furthermore, at the end of 2005, the Italian national collective bargaining agreement for the gas and water industry expired, and negotiations began for its renewal with the presentation of the joint trade union platform.

## Research and development

Enel SpA does not directly conduct research and development activities. Such projects are carried out by other Group subsidiaries and associated companies.

In particular, Enel Produzione is engaged in "competitive research", primarily aimed at increasing the efficiency and improving the costs and environmental compatibility of the generation process.

"System research", conducted for the benefit of the entire Italian electrical system, governed by regulations concerning the reorganization of the electrical industry and remunerated through a specific rate component, is conducted by the associated company CESI.

## Transactions with related parties

Related parties are identified in accordance with the provisions of Consob Resolution no. 14990 of April 14, 2005.

Transactions entered into with companies wholly controlled, directly or indirectly, by the Ministry for the Economy and Finance, are primarily related to the sale of electricity to the Single Buyer at market prices and energy transport fees paid to the Independent System Operator (ISO). Transport fees are established by the Authority for Energy and Gas.

The following table summarizes these relationships:

Millions of euro	Balance Sheet		Income Statement	
	Receivables	Payables	Costs	Revenues
	at Dec. 31, 2005		2005	
Single Buyer	171.0	-	-	828.4
ISO	-	1.1	15.2	-
Terna <sup>(1)</sup>	0.1	-	1.9	-
<b>Total</b>	<b>171.1</b>	<b>1.1</b>	<b>17.1</b>	<b>828.4</b>

(1) The income statement refers to the period from September 15, 2005 to December 31, 2005.

The transactions Enel SpA entered into with its subsidiaries during 2005 mainly involved the exchange of goods, services, the provision and employment of financial resources, insurance coverage, human resource management and organizational, legal and business management support, and the planning and coordination of tax and administrative activities.

Transactions with associated companies mainly concern telecommunications services, vehicle leasing (with Leasys SpA, which was sold on September 30, 2005 to Fiat), and the rental of property through Immobiliare Foro Bonaparte, Immobiliare Porta Volta and Immobiliare Progetto Ostiense (sold to third parties in October 2005).

All transactions are part of the routine operations of the Company and are settled on an arm's length basis, i.e. on the same market terms as agreements entered into between two independent parties.

Finally, the Enel Group's corporate governance rules (for more details see the appropriate section in the Report on operations) establish conditions for ensuring that transactions with related parties are performed in accordance with procedural and substantive propriety.



More detailed descriptions of the transactions with related parties can be found in the Notes to the financial statements under the individual items to which they are applicable. A summary is presented below:

Main categories for 2005	Millions of euro	Nature of the transaction
Revenues from the sale of goods and services	222	Refers to revenues derived from support and consulting services provided to subsidiaries.
Raw materials and services	74	Refers mostly to IT and property management services provided by Enel Servizi Srl (formerly Enel Ape Srl), telecommunications services provided by Wind Telecomunicazioni, and services provided by associated companies with regard to property rental (Immobiliare Foro Bonaparte) and vehicle leasing (Leasys).
Net financial and extraordinary income	286	Refers to net financial income related mainly to accrued interest on inter-company current accounts, debts assumed and loans granted to Group companies.
Receivables held as non-current financial assets	1,940	Refers to the assumption of medium/long-term debt and the liability for supplementary retirement benefits as part of transfers of assets and subsequent loans.
Current assets (receivables)	5,764	Concerns the short-term credit granted through the inter-company current account, trade receivables and the application of Group VAT and consolidated taxation mechanisms. Trade receivables arise in respect of services provided by Enel SpA for support and consulting services of a corporate, administrative, financial and tax nature.
Current liabilities (payables)	1,762	Concerns the balance on inter-company current accounts, trade payables and the application of Group VAT and consolidated taxation mechanisms. Trade payables arise in respect of sundry services, especially rent, property management fees, IT services provided by Enel Servizi (formerly Enel Ape Srl), as well as trade payables to associated companies primarily for vehicle leasing and property rental.

## Shares held by Directors and Statutory Auditors

As provided for by Article 79 of Consob Resolution no. 11971/99, the table below sets out the number of Enel SpA shares owned directly or through subsidiaries, trust companies or third parties by Directors, members of the Board of Auditors and those who have held at some point in 2005 the position of General Manager, as well as their spouses (if not legally separated) or minor children. The data presented is based on the information found in the shareholder register and in notices received from and information supplied by the Directors, Statutory Auditors and General Managers themselves. All persons who held the position of Director, Statutory Auditor or General Manager at some time in 2005 are included. Those persons who are not listed therefore did not own any Enel SpA shares during 2005.

Name	Company in which shares are held	Number of shares held at year-end 2004	Number of shares purchased in 2005	Number of shares sold in 2005	Number of shares held at year-end 2005	How held
Ballio Giulio	Enel SpA	1,200 <sup>(1)</sup>	500 <sup>(1)</sup>	-	1,700 <sup>(1)</sup>	Owned
Conti Fulvio	Enel SpA	23,844 <sup>(2)</sup>	691,896 <sup>(3)</sup>	674,416 <sup>(4)</sup>	41,324 <sup>(5)</sup>	Owned
Giordano Giancarlo	Enel SpA	524	-	-	524	Owned
Gnudi Piero	Enel SpA	70,524 <sup>(6)</sup>	-	-	70,524 <sup>(6)</sup>	Owned
Morganti Franco	Enel SpA	1,987 <sup>(7)</sup>	96 <sup>(8)</sup>	-	2,083 <sup>(9)</sup>	Owned
Provasoli Angelo	Enel SpA	16,000	-	-	16,000	Owned
Scaroni Paolo	Enel SpA	23,237	6,461,044 <sup>(10)</sup>	6,441,400 <sup>(11)</sup>	42,881	Owned
Taranto Francesco	Enel SpA	10,000	-	-	10,000	Owned

(1) All held by spouse.

(2) Of which: 23,582 held personally and 262 held by spouse.

(3) Of which: 691,396 held personally (broken down as follows: (i) 689,416 subscribed in exercise of stock options, (ii) 1,500 purchased in July 2005 public offering and (iii) 480 from the granting of bonus shares) and 500 held by spouse.

(4) All from exercise of stock options.

(5) Of which: 40,562 held personally and 762 held by spouse.

(6) Of which: 262 held personally; 24,262 held by spouse; 46,000 by a subsidiary.

(7) Of which: 1,125 held personally and 862 held by spouse.

(8) Of which: 48 held personally and 48 held by spouse. In both cases, the shares come from the granting of bonus shares.

(9) Of which: 1,173 held personally and 910 held by spouse.

(10) Of which 6,441,400 subscribed in exercise of stock options and 19,644 purchased on the open market.

(11) All from exercise of stock options.

## Subsequent events, outlook and other information

The most important subsequent events are described below:

### Memorandum of Understanding with the Russian energy trader RusEnergosbyt

On March 2, 2006 Enel announced the signing of a Memorandum of Understanding to acquire a 50% stake for \$105 million in RusEnergosbyt (RES), a Russian company active in the energy trading market and controlled by Grigory Berezkin, Chairman of the ESN Group. Thanks to this agreement, Enel gains access to the electricity market of the Russian Federation in collaboration with the largest supplier in the Russian power sector, which has been operating in the wholesale and retail markets since 2003. With this transaction Enel strengthens its position in the Russian market, where the Company has operated since 2004, managing the combined-cycle North West Thermal Power Plant (NWTPP) in St. Petersburg under an agreement with RAO UES.

The alliance with RES is part of Enel's European expansion strategy and is intended to position the Company to take advantage of any new opportunities offered by the liberalization of the Russian market.

### Outlook

Enel's results and level of debt in its capacity as a holding company will continue to be affected by the results of its subsidiaries, as well as by the positive effects generated by Group reorganization and rationalization. Enel will continue its strategy of concentrating on its core business so as to become the most efficient producer and distributor of electricity and gas.

Enel plans to continue the process of internationalizing its core business through on-going activities designed to seek out opportunities for international expansion that allow it to exploit its know-how in countries where the electricity market is in the process of being opened and where the demand for energy is rising.

Finally, Enel will continue to manage existing long-term contracts for the purchase of energy from abroad.

### Other information

#### Inquiries by the Milan Public Prosecutor's Office and the State Audit Court

In February 2003, the Milan Public Prosecutor's Office initiated a criminal investigation (Proceeding no. 2460/03) of former top managers of Enelpower and other individuals for alleged offences to the detriment of Enelpower and payments made by contractors to receive certain contracts.

Implementing the resolutions of the boards of Enel, Enelpower and Enel Produzione, legal action was taken against the suppliers involved, which led to settlements with Siemens and Alstom.

On the basis of the information that emerged during the criminal proceedings, the State Audit Court ordered the seizure of real estate, movable property and receivables of the former Chief Executive Officer and a former executive of Enelpower, in addition to the former Chairman of Enel Produzione, citing them for possible administrative liability in relation to losses caused to the tax authorities.

On November 9, 2005, Enel, Enelpower and Enel Produzione deposited an instrument in support of

the request of the Regional Public Prosecutor. On November 18, 2005, with an instrument also notified to Enelpower, the defense counsel of the former Enelpower CEO appealed to the Joint Sections of the Court of Cassation (the supreme court of appeal) asserting that the State Audit Court had no jurisdiction in the case as Enel SpA and Enelpower SpA were not public law bodies or public entities and that their managers could not be considered public officials or as being charged with a public service.

On November 30, 2005 Enelpower and Enel Produzione notified the claimants against the former Enel Produzione CEO of a request, pursuant to Article 2901 et seq. of the Italian Civil Code, made to the court to declare invalid in their regard a number of asset disposals carried out by the former CEO of Enel Produzione.

In a ruling of February 22, 2006, the State Audit Court, finding that the former directors and managers cited in the suit were liable, awarded Enelpower damages of about €14 million.

#### **Personal Data Protection Code (Legislative Decree 196 of June 30, 2003)**

In 2005, Enel SpA prepared its Security Policy Document pursuant to Article 34 of the "Personal Data Protection Code" (Legislative Decree 196 of June 30, 2003). The document will be updated as required by the law.

#### **Approval of the financial statements**

The Ordinary Shareholders' Meeting to approve the financial statements, as provided by Article 12.2 of the bylaws of Enel SpA, is called within six months of the closing of the financial year.

In accordance with Article 2364.2 of the Civil Code, the meeting is called within six months rather than within the usual 120 days from the close of the period due to the fact that Enel is also required to prepare consolidated financial statements.

#### **Adoption of international accounting standards**

Regulation 2002/1606/EC provides that as from the 2005 financial year companies whose securities are listed on a regulated market of any Member State of the European Union must adopt International Financial Reporting Standards in preparing their consolidated financial statements.

Within the scope provided for in the EU Regulation and Legislative Decree 38 of February 28, 2005, Italian law establishes that companies required to draft their consolidated financial statements in accordance with IFRS may also draft their statutory reports using IFRS starting as of 2005 and shall be required to do so as of 2006.

Enel SpA has decided to adopt IFRS/IAS in preparing its statutory financial statements as of January 1, 2006.

The most significant impact of adopting these standards can be ascribed to:

- > the use of actuarial techniques for the measurement of severance pay entitlements and other post-employment benefits;

- > the adoption of fair value in the measurement of derivative instruments;
- > the fact that the recognition (capitalization) of certain types of intangible assets is no longer allowed.

#### **Disclosures on financial instruments**

The disclosures on financial instruments required by Article 2428.2, 6 bis of the Civil Code are reported in the Notes to the financial statements.



Ghișeu  
Contracte, Informații

Enel Electrica  
Autent



## Romania

In Romania Enel has acquired 51% of two companies, Electrica Banat and Electrica Dobrogea. The former, which is headquartered in Timișoara, operates in four districts in the western part of the country, while the latter, based in Costanza, operates in another four districts in the east. Together, the companies account for nearly 20% of the Romanian market for the distribution and sale of electricity, with more than 1.4 million customers, 100 thousand of which are industrial and commercial firms.

The Enel acquisition helped improve customer relations in terms of service quality and attention, thanks in part to the establishment of direct contact between account managers and customers.

Another major change was the start of operations on the free market, which called for the rapid acquisition of new skills through training programs and the exchange of experience with other Enel colleagues.

This swiftly produced an improvement in hourly forecasts and the start of electricity purchases on the centralized markets and risk management activities.

**Silviana Piturča Simu** Deputy Director Marketing Enel Electrica Banat

*“Training, process reorganization, precise specification of responsibilities: all of this is a step in the right direction in a climate favorable to change”*

## FINANCIAL STATEMENTS

## Balance sheet

Euro	Sub-total		Total	Sub-total		Total
ASSETS	at Dec. 31, 2005			at Dec. 31, 2004		
<b>A) SHARE CAPITAL NOT PAID UP</b>	-			-		
<b>B) NON-CURRENT ASSETS with separate reporting of those under finance leases</b>						
<b>I. Intangible assets</b>						
> Industrial patents and intellectual property rights		13,945,736			12,876,913	
> Brands and licenses		12,911			15,494	
> Work in progress and advances		-			-	
> Other		12,506,972			14,612,518	
		<b>26,465,619</b>				<b>27,504,925</b>
<b>II. Tangible assets</b>						
> Land and buildings		2,176,949			2,163,460	
> Plant and machinery		265,842			413,019	
> Industrial and commercial equipment		70,225			264,479	
> Other assets		1,767,673			2,289,315	
		<b>4,280,689</b>				<b>5,130,273</b>
<b>III. Financial assets</b>						
> Equity investments in:						
. subsidiaries		15,319,306,918			16,049,409,395	
. associates		1,835,643,462			2,263,915	
. other companies		362,079,097			17,331,073	
		17,517,029,477			16,069,004,383	
	Due within 12 months			Due within 12 months		
> Receivables:						
. from subsidiaries	86,678,349	1,939,850,149		237,662,735	2,353,122,120	
. from others	178,767,445	181,278,909		3,077,177	1,580,734,583	
		2,121,129,058			3,933,856,703	
> Other securities		14,624			14,624	
		<b>19,638,173,159</b>				<b>20,002,875,710</b>
<b>Total non-current assets</b>		<b>19,668,919,467</b>				<b>20,035,510,908</b>
	Due beyond 12 months			Due beyond 12 months		
<b>C) CURRENT ASSETS</b>						
<b>I. Inventories</b>						
<b>II. Receivables</b>						
> Trade		188,960,937			158,177,540	
> Subsidiaries		5,751,793,585			8,909,820,695	
> Associates		12,163,551			189,747	
> Tax receivables		575,197,652			433,999,905	
> Deferred tax assets	67,389,743	401,806,434		330,765,042	629,433,476	
> Other		170,201,728			113,022,398	
> Electricity Equalization Fund		393,751,204			557,511,204	
		<b>7,493,875,091</b>				<b>10,802,154,965</b>
<b>III. Short-term investments</b>						
> Other securities		492,340,454				495,892,308
<b>IV. Cash and cash equivalents</b>						
> Bank and Post Office deposits		45,477,291			20,326,214	
> Cash on hand		52,342			54,390	
		<b>45,529,633</b>				<b>20,380,604</b>
<b>Total current assets</b>		<b>8,031,745,178</b>				<b>11,318,427,877</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>						
> Accrued income		30,481,952				89,193,870
> Prepaid expenses:						
. issue discounts		20,737,971			19,129,186	
. other		33,180,221			33,128,804	
		<b>53,918,192</b>				<b>52,257,990</b>
<b>Total accrued income and prepaid expenses</b>		<b>84,400,144</b>				<b>141,451,860</b>
<b>TOTAL ASSETS</b>		<b>27,785,064,789</b>				<b>31,495,390,645</b>



Euro	Sub-total		Total	Sub-total		Total
LIABILITIES AND SHAREHOLDERS' EQUITY	at Dec. 31, 2005			at Dec. 31, 2004		
<b>A) SHAREHOLDERS' EQUITY</b>						
I. Share capital			6,157,071,646			6,103,521,864
II. Share premium reserve			485,497,000			200,163,019
IV. Legal reserve			1,452,085,638			1,452,085,638
VII. Other reserves:						
> Restatement reserve (Law 292/1993)	2,215,444,500			2,215,444,500		
> Reserve for capital grants (Art. 55 Presidential Decree 917/86)	19,042,956			19,042,956		
> Other	20,106,073			20,106,073		
			2,254,593,529			2,254,593,529
VIII. Retained earnings			3,076,878,585			32,397,542
IX. Net income						
> Net income	2,714,880,591			7,271,958,961		
> Interim dividend	(1,169,422,875)			(2,013,877,011)		
Residual net income			1,545,457,716			5,258,081,950
<b>Total shareholders' equity</b>			<b>14,971,584,114</b>			<b>15,300,843,542</b>
<b>B) PROVISIONS FOR RISKS AND CHARGES</b>						
> Retirement benefits and similar obligations	386,363,665			397,914,224		
> Taxes, including deferred	38,242,113			5,156,511		
> Other	829,981,102			656,268,179		
<b>Total provisions for risks and charges</b>			<b>1,254,586,880</b>			<b>1,059,338,914</b>
<b>C) SEVERANCE BENEFIT</b>			<b>11,252,591</b>			<b>11,172,179</b>
<b>D) DEBT AND PAYABLES</b>						
	Due beyond 12 months			Due beyond 12 months		
> Bonds	7,643,088,638	8,138,586,329		7,041,575,851	7,929,864,621	
> Banks:						
. medium/long-term debt	59,364,347	250,733,907		1,580,780,389	1,886,436,829	
. short-term debt		752,693,639			2,303,410,106	
		1,003,427,546			4,189,846,935	
> Advances		10,820			10,820	
> Trade		307,862,432			326,572,642	
> Subsidiaries		1,760,575,581			2,322,633,120	
> Associates		957,927			874,574	
> Tax payables		3,667,232			26,757,945	
> Social security	-	8,448,481		711,189	9,928,578	
> Other		161,717,005			136,777,547	
<b>Total debt and payables</b>			<b>11,385,253,353</b>			<b>14,943,266,782</b>
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>						
> Accrued liabilities			153,229,838			176,010,524
> Deferred income:						
. issue premiums	2,882,380			3,914,875		
. other	6,275,633			843,829		
			9,158,013			4,758,704
<b>Total accrued liabilities and deferred income</b>			<b>162,387,851</b>			<b>180,769,228</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			<b>27,785,064,789</b>			<b>31,495,390,645</b>
<b>COMMITMENTS</b>						
> Guarantees given	10,296,736,444			11,259,205,406		
> Other commitments	14,713,635,559			14,779,324,885		
<b>Total commitments</b>			<b>25,010,372,003</b>			<b>26,038,530,291</b>

## Income statement

Euro	Sub-total	Total	Sub-total	Total
	2005		2004	
<b>A) REVENUES</b>				
> Revenues from sales and services	1,061,617,275			1,020,806,970
> Other revenues:				
. other	26,215,727			593,724,091
<b>Total revenues</b>	<b>1,087,833,002</b>			<b>1,614,531,061</b>
<b>B) OPERATING COSTS</b>				
> Raw and ancillary materials, consumables and goods	606,920,980			579,480,919
> Services	196,154,534			166,093,721
> Leases and rentals	14,578,148			12,795,122
> Personnel:				
. wages and salaries	58,224,112		60,603,369	
. social security contributions	16,765,047		17,625,970	
. severance benefit	3,821,284		3,326,740	
. retirement benefits and similar obligations	88,632		118,653	
. other	4,151,949		4,119,714	
	83,051,024			85,794,446
> Amortization, depreciation and writedowns:				
. amortization	12,127,669		4,059,865	
. depreciation	1,033,967		1,244,637	
	13,161,636			5,304,502
> Accruals to provisions for risks and charges	44,849,961			41,315,020
> Other accruals	22,159,684			29,844,108
> Other operating costs	81,655,192			42,744,244
<b>Total operating costs</b>	<b>1,062,531,159</b>			<b>963,372,082</b>
<b>Operating income (A-B)</b>	<b>25,301,843</b>			<b>651,158,979</b>
<b>C) FINANCIAL INCOME AND EXPENSE</b>				
> Income on equity investments:				
. from subsidiaries	1,536,274,654		1,883,217,480	
. other	6,240,300		100,040	
	1,542,514,954			1,883,317,520
> Other financial income:				
. income on non-current receivables:				
. from subsidiaries	102,855,784		148,641,133	
. other	28,770,681		51,553,368	
. securities held as current assets	10,914,595		9,671,725	
. other financial income:				
. from subsidiaries	261,568,068		211,488,944	
. from associates	293,114		-	
. other	30,155,030		18,569,821	
	434,557,272			439,924,991
> Interest and other financial expense:				
. from subsidiaries	48,749,433		65,400,026	
. from associates	239,210		-	
. other	552,011,457		637,347,950	
. foreign exchange gains/(losses)	3,906,983		(567,376)	
	604,907,083			702,180,600
<b>Total financial income/(expense)</b>	<b>1,372,165,143</b>			<b>1,621,061,911</b>

Euro	Sub-total	Total	Sub-total	Total
	2005		2004	
<b>D) VALUE ADJUSTMENTS OF FINANCIAL ASSETS</b>				
> Revaluations:				
. equity investments:				
. unconsolidated		5,085,098		-
> Writedowns:				
. equity investments:				
. consolidated	173,324,348		2,930,005,802	
. unconsolidated	-		16,059,388	
		173,324,348		2,946,065,190
<b>Total value adjustments of financial assets</b>		<b>(168,239,250)</b>		<b>(2,946,065,190)</b>
<b>E) EXTRAORDINARY INCOME AND EXPENSE</b>				
> Income:				
. capital gains on disposals	1,487,982,714		5,533,476,299	
. other	4,546,151		2,664,553,175	
		1,492,528,865		8,198,029,474
> Expense:				
. capital losses on disposals	2,442,947		2,224,074	
. prior-year taxes	-		817,838	
. other	20,409,601		499,227,419	
		22,852,548		502,269,331
<b>Total extraordinary items</b>		<b>1,469,676,317</b>		<b>7,695,760,143</b>
<b>Income before taxes (A-B+C+D+E)</b>		<b>2,698,904,053</b>		<b>7,021,915,843</b>
> Income taxes				
. current income taxes	(276,689,182)		(52,171,880)	
. deferred tax liabilities and assets	260,712,644		(197,871,238)	
		(15,976,538)		(250,043,118)
<b>NET INCOME</b>		<b>2,714,880,591</b>		<b>7,271,958,961</b>



## Slovakia

Thanks to Enel's experience in the operation and automation of hydroelectric plants in Italy, these facilities are now operated through six remote control centers.

This experience was put to use in bringing the supervision and automation of plants in the Slovak Republic, where Enel acquired Slovenské Elektrárne, up to top modern standards. Slovenské Elektrárne is the leading generator of power in the country and the second largest in Central and Eastern Europe, with installed capacity of 7,000 MW.

At Trenčín, headquarters of the Hydroelectric Division and the Remote Control Center, a joint Enel-Slovenské Elektrárne working group is implementing the changes needed for the fully remote operation of the 34 existing hydro facilities.

At the end of the project, all of the Slovak personnel will have acquired additional skills in the automation and operation of power plants.

**Stefan Starosta** Team Leader Trenčín Total Control Slovenské Elektrárne

*"Safety, innovation, optimization of plant operations: these are the goals driving our efforts"*

## Notes to the financial statements

### Form and content of the financial statements

The 2005 financial statements, consisting of the balance sheet, income statement and the accompanying notes, have been prepared in accordance with the provisions of the Italian Civil Code (as modified by Legislative Decree 6 of January 17, 2003, as amended, which reformed company law). Complementary information deemed necessary to provide true and fair representation of the Company's situation is also included even where not required by law.

For information regarding subsequent events, transactions with related parties and research and development activities, please refer to the relevant sections of the Report on operations accompanying these financial statements.

The Report on operations also contains the statement of cash flows.

No recourse has been made to the departures provided for by Article 2423.4 of the Civil Code.

All figures presented in the financial statements are in euro. Due to the size of figures involved, the information contained in the comments to the balance sheet and income statement is expressed in millions of euro, as permitted by Consob regulations.

The consolidated financial statements for the Enel Group have been prepared in accordance with international accounting standards and are presented in a separate document.

### Accounting policies and measurement criteria

The accounting policies and measurement criteria used in preparing the 2005 financial statements are consistent with those used for 2004, allowing for the modifications pursuant to Legislative Decree 6/2003 referred to above. These policies are in line with those provided for by law, interpreted and supplemented, where necessary, by the accounting standards adopted by the National Councils of the Italian accounting profession, as amended by the Italian Accounting Board (Organismo Italiano di contabilità) with regard to the reform of company law, and by the documents issued by the Italian Accounting Board.

The most important policies and measurement criteria are described below.

#### Intangible assets

Intangible assets are recorded at purchase or production cost, including any direct incidental expenses, and represent the non-amortized balance of investments that produce economic benefits over more than one year. These costs are written down in the case of permanent impairment of value and adjusted upward (net of accumulated amortization) if the reasons for the impairment no longer obtain. Amortization is calculated on a straight-line basis over the expected useful life of the asset.

The extraordinary contribution due as a result of the abolition of the Electricity Industry Employee Pension Fund established with Law 488 of December 23, 1999 (2000 Finance Act) is amortized over a period of 20 years, as permitted by the Act.

**Tangible assets**

Tangible assets are stated at purchase or production cost including any direct incidental expenses and adjusted by revaluations made pursuant to law. The cost value is written down in the case of permanent impairment of value and adjusted upward (net of accumulated depreciation) if the reasons for the impairment no longer obtain.

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

Tangible assets are depreciated on a straight-line basis at rates that reflect their expected residual useful life.

The main depreciation rates used are 2.5% for buildings and 10% for plant and equipment.

The rates are reduced by half for assets acquired during the year.

**Non-current financial assets**

Equity investments in subsidiaries, associated companies and other companies have been valued at cost. The cost value is written down in the case of permanent impairment of value and adjusted upward if the reasons for the impairment no longer obtain.

Advance payments made to purchase equity investments are recorded among receivables under non-current financial assets.

**Receivables and current financial assets**

Receivables are recorded at their expected realizable value by recognizing a specific provision for doubtful accounts and classified under non-current financial assets or current assets depending on their purpose and the nature of the debtor.

"Other securities" included under current assets are represented by Enel SpA bonds recorded at face value.

**Accruals and deferrals** Accruals and deferrals are calculated on an accruals basis. Issue premiums and discounts and other charges in respect of financing are taken to the income statement over the term of each loan.

**Provision for retirement benefits**

The provision consists mainly of the estimate of the present value of the liability in respect of supplementary pension benefits for retired managers at April 1, 1998.

The provision also contains the compensation paid in lieu of notice to existing personnel who have accrued the entitlement under the applicable collective labor contracts and union agreements.

**Other provisions for risks and charges**

Other provisions are accrued against known or probable losses or charges whose amount or timing are not determined at the close of the period. Accruals are made on the basis of the best estimate possible using available information.

**Provision for severance benefit**

The provision is accrued pursuant to law and labor contracts in force and reflects the accrued liability in respect of all employees as of the balance-sheet date, net of any advance payments made in accordance with the law, as well as the portion allocated to pension funds.

**Payables**

Payables are recognized at nominal value.

**Revenues**

Revenues for services and the sale of goods are recognized at the time at which the service is supplied or title to the good is transferred.

**Dividends**

Dividends and interim dividends are recognized in the year in which their distribution is approved.

**Income taxes**

Current income taxes for the year are recorded under tax payables/receivables net of any payments on account. They are calculated based upon an estimate of taxable income and in conformity with applicable law, taking account of the effects of the national consolidated taxation mechanism. Deferred tax assets and liabilities are calculated on temporary differences between the amounts posted in the financial statements and the corresponding amounts recognized for tax purposes. Deferred tax assets are recognized only if it is reasonably certain they will be recovered in the future. In particular, those concerning tax losses carried forward are recognized to the extent to which it appears reasonably certain that they will be recoverable against future taxable income within the time limits provided for by applicable tax regulations. The "Provision for taxes, including deferred" comprises deferred tax liabilities, which are only recognized when and to the extent that they are expected to be paid.

**Translation of amounts denominated in foreign currencies**

Receivables and payables originally denominated in foreign currencies are translated into euro at the exchange rate prevailing at the time of the transaction. At the end of the year, amounts denominated in foreign currencies are translated using the year-end exchange rate and differences are recorded as under financial income or expense, taking account of any hedging contracts. Any net gains arising from translation are allocated to an equity reserve that is not distributable until the gains are realized.

**Derivatives**

In order to hedge the risk of fluctuations in interest and exchange rates and commodity prices, Enel has entered into derivatives contracts to hedge both specific amounts or overall exposures. Positive and negative interest rate differences accrued at the end of the year on interest rate hedges are taken to the income statement under financial income and expense in line with the charges on the underlying liabilities.



Derivatives used to hedge exchange rate risk are measured at the exchange rates prevailing at the balance-sheet date and the related losses and gains are recognized in the income statement under exchange rate differences as "Foreign exchange gains/(losses)". Similarly, premiums and discounts are recorded on an accruals basis in the income statement over the lifetime of the hedging instrument.

Gains and losses on hedges of the commodity risk associated with purchases of energy abroad are taken to the income statement consistently with those recorded on the underlying transaction. Accordingly, gains and losses on derivative contracts that relate to costs and revenues that have not yet accrued are not recognized.

The economic impact of hedges against exchange rate risk for Group companies is recorded in the income statement under financial income and expense. The Company purchases corresponding coverage against these contracts in the financial markets. Both the hedges offered to Group companies and the corresponding hedges purchased on financial markets are measured at cost.

Derivative instruments entered into for hedging purposes but for which the underlying asset or liability has been prematurely extinguished or cannot be specifically identified are valued at the end of the period at the lower of cost and market value. The effects of measurement are recorded under financial expense.

**Memorandum accounts** Guarantees issued are recorded in the same amounts as the underlying debts.

Commitments to suppliers are calculated on the basis of contracts existing at the end of the period that do not fall within the usual "operating cycle" and to the extent that they have not yet been performed.

Commitments in respect of forward currency purchases and sales are registered at the settlement price stated in the contract.

Commitments in respect of commodity risk hedges are recorded at notional value.

## Balance sheet – Assets

### Non-current assets

#### Intangible assets – €26.5 million

Changes during the year are as follows:

Millions of euro		Increases	Amortization	
	at Dec. 31, 2004			at Dec. 31, 2005
Industrial patents and intellectual property rights	12.9	9.2	(8.1)	14.0
Other:				
> extraordinary contribution for the suppression of the Electricity Industry Employee Pension Fund	5.4	-	(0.4)	5.0
> leasehold improvements	9.2	1.9	(3.6)	7.5
<b>Total other</b>	<b>14.6</b>	<b>1.9</b>	<b>(4.0)</b>	<b>12.5</b>
<b>TOTAL</b>	<b>27.5</b>	<b>11.1</b>	<b>(12.1)</b>	<b>26.5</b>

“Industrial patents and intellectual property rights” essentially include the residual value of software licenses purchased in 2004 by Enel.it, a company that was merged into Enel Servizi Srl (formerly Enel Ape Srl) effective as of 1 January 2005, and additional purchases made during the year.

The amortization of these licenses is carried out on a straight-line basis over a period of 36 months.

The “extraordinary contribution” due as a result of the suppression of the Electricity Industry Employee Pension Fund was established by Law 488 of December 23, 1999 (the 2000 Finance Act). Changes for the period are related to amortization for the year.

“Leasehold improvements” are essentially related to restructuring of certain parts of the building leased by Enel SpA for its headquarters. These costs are amortized over the remaining life of the lease contract for this building, the expiration of which has been moved up to December 31, 2007.

## Non-current tangible assets – €4.3 million

The composition and changes to this item by category are as follows:

Millions of euro	Investments	Disposals	Depreciation	
at Dec. 31, 2004				at Dec. 31, 2005
<b>Land and buildings</b>				
Gross amount	3.1	0.1	-	3.2
Depreciation	(1.0)	-	(0.1)	(1.1)
<b>Balance</b>	<b>2.1</b>	<b>0.1</b>	<b>(0.1)</b>	<b>2.1</b>
<b>Plant and machinery</b>				
Gross amount	3.0	-	-	3.0
Depreciation	(2.6)	-	(0.1)	(2.7)
<b>Balance</b>	<b>0.4</b>	<b>-</b>	<b>(0.1)</b>	<b>0.3</b>
<b>Industrial and commercial equipment</b>				
Gross amount	5.3	-	-	5.3
Depreciation	(5.0)	-	(0.2)	(5.2)
<b>Balance</b>	<b>0.3</b>	<b>-</b>	<b>(0.2)</b>	<b>0.1</b>
<b>Other assets</b>				
Gross amount	16.4	0.1	-	16.5
Depreciation	(14.1)	-	(0.6)	(14.7)
<b>Balance</b>	<b>2.3</b>	<b>0.1</b>	<b>(0.6)</b>	<b>1.8</b>
<b>TOTAL</b>				
Total gross amount	27.8	0.2	-	28.0
Total depreciation	(22.7)	-	(1.0)	(23.7)
<b>BALANCE</b>	<b>5.1</b>	<b>0.2</b>	<b>(1.0)</b>	<b>4.3</b>

Non-current tangible assets total €4.3 million, for a net decrease of €0.8 million due almost exclusively to depreciation for the year (€1.0 million).

The revaluations pursuant to applicable law and adjustments pursuant to Law 292/1993 solely concern land and buildings. The amount of revaluations as of December 31, 2004 and 2005, totaled €1.7 million.

## Non-current financial assets – €19,638.2 million

### Equity investments – €17,517.0 million

This item includes equity investments in:

- > subsidiaries in the amount of €15,319.3 million;
- > associated companies in the amount of €1,835.6 million;
- > other companies in the amount of €362.1 million.

The tables below show the changes during the year for each investment, with the corresponding balances at the beginning and end of the year, as well as the list of investments held in subsidiaries, associates and other companies.

Euro	Original cost	Writedowns	Carrying amount	% holding
at Dec. 31, 2004				
<b>A) Subsidiaries</b>				
1 Enel Produzione SpA	6,568.7	-	6,568.7	100.0
2 Enel Distribuzione SpA	6,320.7	-	6,320.7	100.0
3 T.E.R.NA. SpA	451.6	-	451.6	50.0
4 Enel Facility Management SpA (formerly Enel Real Estate SpA)	449.5	-	449.5	100.0
5 Cise Srl	315.2	(0.5)	314.7	100.0
6 Wind Telecomunicazioni SpA	2,407.4	(732.0)	1,675.4	37.2
7 Enel Trade SpA	101.0	-	101.0	100.0
8 Enel Investment Holding BV	4,473.0	(4,473.0)	-	100.0
9 Enel.it Srl	52.4	(15.5)	36.9	100.0
10 Enelpower SpA	189.5	(151.7)	37.8	100.0
11 Deval SpA	19.8	-	19.8	51.0
12 Enel Energia SpA	21.0	(8.3)	12.7	100.0
13 Enel Finance International SA	-	-	-	-
14 Enel.Factor SpA	10.1	(0.4)	9.7	80.0
15 Sfera Srl	13.2	(2.8)	10.4	100.0
16 Enel Capital Srl	8.5	(2.4)	6.1	100.0
17 Enel Sole Srl	5.3	-	5.3	100.0
18 Enel.si - Servizi Integrati Srl	5.2	(1.0)	4.2	100.0
19 Enel Servizi Srl (formerly Enel Ape Srl)	40.2	(40.2)	-	100.0
20 Enel.Hydro SpA	114.2	(106.2)	8.0	100.0
21 Idrosicilia SpA	13.5	(0.1)	13.4	60.0
22 Enel Viesgo Servicios SL	-	-	-	60.0
23 Enel.NewHydro Srl	23.0	(19.5)	3.5	100.0
24 Enel Servicii Srl	-	-	-	80.0
<b>Total subsidiaries</b>	<b>21,602.9</b>	<b>(5,553.6)</b>	<b>16,049.4</b>	
<b>B) Associates</b>				
1 Idrosicilia SpA	-	-	-	-
2 CESI SpA	2.2	-	2.2	25.9
3 WIND Telecomunicazioni SpA	-	-	-	-
<b>Total associates</b>	<b>2.2</b>	<b>-</b>	<b>2.2</b>	<b>25.9</b>
<b>C) Other companies</b>				
1 Echelon	151.5	(135.7)	15.8	7.3
2 Elcogas SA	2.2	(1.1)	1.1	4.0
3 Emittente Titoli SpA	0.5	-	0.5	10.0
4 T.E.R.NA. SpA	-	-	-	-
5 Weather Investments	-	-	-	-
<b>Total other companies</b>	<b>154.2</b>	<b>(136.8)</b>	<b>17.4</b>	
<b>TOTAL EQUITY INVESTMENTS</b>	<b>21,759.4</b>	<b>(5,690.4)</b>	<b>16,069.0</b>	

Equity deficit as of Jan. 1, 2005	Purchases/ Incorporations/ (Sales)	Capital grants and loss coverage	Spin-offs/ Transfers	Adjustments in value	Change total	Original cost	Writedowns	Carrying amount	% holding
Changes in 2005						at Dec. 31, 2005			
-	-	-	-	-	-	6,568.7	-	6,568.7	100.0
-	-	-	-	-	-	6,320.7	-	6,320.7	100.0
-	(396.1)	-	(55.5)	-	(451.6)	-	-	-	-
-	-	-	(449.5)	-	(449.5)	-	-	-	-
-	-	-	-	-	-	315.2	(0.5)	314.7	100.0
-	-	149.0	(1,824.4)	-	(1,675.4)	732.0	(732.0)	-	-
-	-	-	-	-	-	101.0	-	101.0	100.0
-	-	-	-	-	-	4,473.0	(4,473.0)	-	100.0
-	-	-	(36.9)	-	(36.9)	15.5	(15.5)	-	-
-	-	-	-	-	-	189.5	(151.7)	37.8	100.0
-	-	-	-	-	-	19.8	-	19.8	51.0
-	-	-	-	-	-	21.0	(8.3)	12.7	100.0
-	1,414.2	-	-	-	1,414.2	1,414.2	-	1,414.2	100.0
-	7.8	-	-	-	7.8	17.9	(0.4)	17.5	100.0
-	-	-	-	-	-	13.2	(2.8)	10.4	100.0
-	-	-	-	-	-	8.5	(2.4)	6.1	100.0
-	-	-	-	-	-	5.3	-	5.3	100.0
-	-	-	-	-	-	5.2	(1.0)	4.2	100.0
(2.1)	-	-	486.4	-	484.3	524.5	(40.2)	484.3	100.0
-	(19.0)	11.0	-	-	(8.0)	106.2	(106.2)	-	-
-	(4.4)	-	(9.0)	-	(13.4)	0.1	(0.1)	-	-
-	-	-	-	-	-	-	-	-	60.0
-	-	-	-	(1.6)	(1.6)	23.0	(21.1)	1.9	100.0
-	-	-	-	-	-	-	-	-	80.0
(2.1)	1,002.5	160.0	(1,888.9)	(1.6)	(730.1)	20,874.5	(5,555.2)	15,319.3	
-	-	-	9.0	-	9.0	9.0	-	9.0	40.0
-	-	-	-	-	-	2.2	-	2.2	25.9
-	-	-	1,824.4	-	1,824.4	1,824.4	-	1,824.4	37.2
-	-	-	1,833.4	-	1,833.4	1,835.6	-	1,835.6	
-	(20.8)	-	-	5.1	(15.7)	130.7	(130.7)	-	-
-	-	-	-	-	-	2.2	(1.1)	1.1	4.0
-	-	-	-	-	-	0.5	-	0.5	10.0
-	-	-	55.5	-	55.5	55.5	-	55.5	6.1
-	305.0	-	-	-	305.0	305.0	-	305.0	5.2
-	284.2	-	55.5	5.1	344.8	493.9	(131.8)	362.1	
(2.1)	1,286.7	160.0	-	3.5	1,448.1	23,204.0	(5,687.0)	17,517.0	

				Shareholders' equity (millions of euro)	
	Head office	Currency	Share capital		
				at Dec. 31, 2005	
INVESTMENTS IN					
A) Subsidiaries					
1	Enel Produzione SpA	Rome	euro	6,352,138,606	10,274.4
2	Enel Distribuzione SpA	Rome	euro	6,119,200,000	10,198.8
3	Enel Finance International SA	Luxemburg	EUR	1,391,900,230	1,457.4
4	Cise Srl	Rome	euro	318,291,049	331.8
5	Enel Trade SpA	Rome	euro	100,885,000	241.9
6	Enelpower SpA	Milan	euro	10,000,000	122.9
7	Deval SpA	Aosta	euro	37,500,000	50.7
8	Enel Energia SpA	Rome	euro	1,414,000	12.8
9	Sfera Srl	Rome	euro	2,000,000	13.7
10	Enel.Factor SpA	Rome	euro	12,500,000	38.3
11	Enel Capital Srl	Rome	euro	8,500,000	6.1
12	Enel Sole Srl	Rome	euro	4,600,000	31.4
13	Enel.si - Servizi Integrati Srl	Rome	euro	5,000,000	7.4
14	Enel.NewHydro Srl	Rome	euro	1,000,000	1.9
15	Enel Viesgo Servicios SL	Santander	euro	3,010	0.1
16	Enel Investment Holding BV	Amsterdam	euro	1,593,050,000	(712.1)
17	Enel Servizi (formerly Enel Ape Srl)	Rome	euro	50,000,000	510.9
18	Enel Servicii Srl	Bucharest	RON	200,000	0.8
B) Associates					
1	CESI SpA	Milano	euro	8,550,000	26.1
2	Idrosicilia	Palermo	euro	22,520,000	22.4
3	Wind Telecomunicazioni SpA	Rome	euro	147,100,000	116.3

(1) The amount of €712.1 million has also been posted to a corresponding provision for charges on equity investments.

(2) The figures for shareholders' equity and net income refer to the financial statements at December 31, 2004.

Income/(Loss) previous year (millions of euro)	% holding	Carrying amount (millions of euro)	Valuation as per Art. 2426.4 of Civil Code (millions of euro)	Difference (millions of euro)
2005		at Dec. 31, 2005		
1,041.1	100.0	6,568.7	10,435.9	(3,867.2)
1,390.7	100.0	6,320.7	10,755.3	(4,434.6)
44.9	100.0	1,414.2	1,457.4	(43.2)
2.4	100.0	314.7	331.8	(17.1)
126.0	100.0	101.0	242.6	(141.6)
57.2	100.0	37.8	135.2	(97.4)
1.5	51.0	19.8	50.7	(30.9)
0.1	100.0	12.7	13.6	(0.9)
2.1	100.0	10.4	14.5	(4.1)
7.0	100.0	17.5	38.3	(20.8)
0.04	100.0	6.1	6.1	-
14.9	100.0	5.3	34.2	(28.9)
1.4	100.0	4.2	8.7	(4.5)
(1.6)	100.0	1.9	1.9	-
(0.05)	60.0	-	0.1	(0.1)
(172.4)	100.0	-	(712.1)	712.1 <sup>(1)</sup>
10.0	100.0	484.3	550.4	(66.1)
0.7	80.0	-	0.6	(0.6)
0.7	25.9	2.2	6.8	(4.6)
(0.09)	40.0	9.0	9.0	- <sup>(2)</sup>
(391.2)	37.2	1,824.4	43.3	1,781.1 <sup>(2)</sup>

**Subsidiaries – €15,319.3 million**

This item decreased by €730.1 million as a result of the following changes during the year:

Millions of euro

	at Dec. 31, 2005
New investment	1,422.0
Capital increases	160.0
Transfers of investments	486.4
<b>Total increases</b>	<b>2,068.4</b>
Equity deficit as of Jan. 1, 2005	(2.1)
Transfers	(486.4)
Sales of Terna to third parties	(396.1)
Sales	(23.4)
Adjustments in value	(1.6)
Reclassification of Terna (from subsidiary to other companies)	(55.5)
Reclassification of Wind (from subsidiary to associate)	(1,824.4)
Reclassification of Idrosicilia (from subsidiary to associate)	(9.0)
<b>Total decreases</b>	<b>(2,798.5)</b>
<b>CHANGE TOTAL</b>	<b>(730.1)</b>

During 2005, investments in associates primarily involved the following transactions.

**New investment**

- > In January, a 20% stake in Enel.Factor was purchased from Meliorbanca for €7.8 million. With this purchase, Enel SpA now holds the entirety of the company's share capital, thereby becoming the sole shareholder;
- > in November, as part of the reorganization of the Group's investments, Enel SpA acquired all of Enel Finance International SA from Enel Produzione and Enel Distribuzione for a total of €1,414.2 million.

**Transfers of investments**

As of January 1, 2005, as part of the reorganization and rationalization of the Group's resources (administration and services), Enel.it and Enel Facility Management were definitively merged into Enel Servizi Srl (formerly Enel Ape Srl).

**Sales of investments to third parties**

- > In April, the sale of a 13.86% stake in Terna SpA was completed with delivery of the securities and payment of the purchase price. The sale led to a €125.2 million reduction in the investment for a price of €568.1 million (equal to €2.05 per share). On September 15, a 29.99% stake in Terna, for an amount of €270.9 million, was then sold to Cassa Depositi e Prestiti at a net price of €1,315.2 million (equal to €2.192 per share);



- > in August, Enel Investment Holding transferred a 62.75% stake held in Wind to a subsidiary of Weather Investments. Following this transfer, the share held by Enel directly no longer represents a controlling interest in Wind, so the investment has been reclassified as an investment in associated companies;
- > in May, the following investments were sold to Compagnie Générale des Eaux Sca:
  - the entire stake in Enel.Hydro SpA in the amount of €16.5 million for a capital loss of €2.4 million;
  - a 20% stake held by Enel SpA in Idrosicilia in the amount of €5.2 million for a capital gain of €0.7 million. With this sale, Enel's stake in Idrosicilia SpA fell to 40%, making the company an associate rather than a subsidiary.

***Associated companies – €1,835.6 million***

This item includes the value of directly held shares (25.9%) in CESI, as well as the value of the investments in Idrosicilia and Wind, which have been reclassified, as described above, as associates following the sale of the majority interest in these companies.

***Other companies – €362.1 million***

This amount is related to the stake held in the companies Elcogas, Emittente Titoli, Terna and Weather Investments. The investment held at December 31, 2004 in Echelon, following the reversal of previous writedowns of €5.1 million, was sold during 2005 to Enel Investment Holding (a subsidiary of Enel SpA) at a price of €20.8 million.

The actual share certificates for Enel SpA investments in subsidiaries are held in custody by Monte dei Paschi di Siena.

**Receivables – €2,121.1 million**

This primarily includes receivables from Group companies, as detailed below.

**Receivables from subsidiaries – €1,939.8 million**

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
For debt assumption and loans granted:			
> assumption of financial debt	1,621.8	1,859.6	(237.8)
> loans granted	33.7	33.7	-
<b>Sub-total</b>	<b>1,655.5</b>	<b>1,893.3</b>	<b>(237.8)</b>
For subordinated loans granted	-	168.3	(168.3)
For assumption of supplementary pension liabilities	284.3	291.5	(7.2)
<b>TOTAL</b>	<b>1,939.8</b>	<b>2,353.1</b>	<b>(413.3)</b>

Receivables by Group company at December 31, 2005, are as follows:

Millions of euro	For debt assumption and loans granted	For assumption of supplementary pension liabilities	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Enel Produzione	1,204.5	90.7	1,295.2	1,403.4	(108.2)
Enel Distribuzione	284.3	180.9	465.2	482.0	(16.8)
Enel Green Power <sup>(1)</sup>	-	-	-	109.7	(109.7)
Wind Telecomunicazioni	-	-	-	168.3	(168.3)
Dalmazia Trieste	88.6	-	88.6	98.9	(10.3)
Enel Rete Gas (formerly Enel Distribuzione Gas)	33.7	-	33.7	33.7	-
Enel.it <sup>(1)</sup>	-	-	-	27.0	(27.0)
Enel Sole	25.8	-	25.8	25.8	-
Enel Facility Management (formerly Enel Real Estate) <sup>(1)</sup>	-	-	-	4.3	(4.3)
Enel Servizi (formerly Enel Ape)	18.6	12.7	31.3	-	31.3
<b>Total</b>	<b>1,655.5</b>	<b>284.3</b>	<b>1,939.8</b>	<b>2,353.1</b>	<b>(413.3)</b>

(1) As a result of the mergers, Enel.it and Enel Facility Management have been absorbed by Enel Servizi Srl (formerly Enel Ape Srl), and Enel Green Power has been absorbed by Enel Produzione.

The receivables related to the assumption of debt are for the portions of bond debt allocated to Group companies, solely for internal purposes, in conjunction with the transfer of the various business units, a process which began in 1999. The terms of the agreements call for the debiting to the companies of the related finance costs and the income and expenses accrued on the interest rate risk hedges, as well as the repayment of the principal upon maturity of each bond.

The €237.8 million reduction from the previous year in receivables for the assumption of debt and for loans granted is related to repayments made during the year.

Following the sale to Weather of the stake in Wind held by Enel Investment Holding, the loan granted to Wind in 2001 (in the amount of €168.3 million) was extinguished.

The receivables related to the supplementary pension fund, in the amount of €284.3 million, are for the assumption, again for internal purposes, of all charges related to supplementary pension plans for retired executives who previously worked for the business units that have been transferred. The debiting to Group companies of their portion of allocations to the fund is recognized in the income statement under other income. The €7.2 million decrease is the net effect of pension disbursements (-€24.1 million) and additions to the fund (+€16.9 million) attributable to subsidiaries.

#### *Other receivables – €181.3 million*

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Loans to employees	2.7	2.9	(0.2)
Receivables from lending institutions	-	1,500.0	(1,500.0)
Other medium and long-term receivables	-	75.0	(75.0)
Prepayment for the acquisition of Slovenské Elektrárne	168.0	-	168.0
Other items	10.6	2.8	7.8
<b>Total</b>	<b>181.3</b>	<b>1,580.7</b>	<b>(1,399.4)</b>

“Loans to employees”, which bear interest at current market rates, have been granted for the purchase of a first home or for serious family needs.

As part of the sale of Wind to Weather, Enel was reimbursed for the amount of the pledge deposit established in 2003 as part of the refinancing of a €1.5 billion line of credit for Wind.

The Enel SpA receivable from Excelsia Otto, which arose as part of the sale of NewReal to Deutsche Bank, was also paid in full ahead of schedule.

With regard to the acquisition of Slovenské Elektrárne, the amount of €168.0 million is related to the deposit of 20% of the price bid for the purchase of a 66% stake in the company.

Other items increased by €7.8 million due essentially to the receivable from Compagnie Générale des Eaux for the sale of the investment held in Enel.Hydro.

With regard to the non-current financial receivables, an indication of the amounts due within and beyond five years, as well as a breakdown by geographical area, are shown at the end of the section on assets.

#### *Other securities – €14,624*

This item regards bonds for various security deposits.

## Current assets

### Receivables – €7,493.9 million

Receivables fell by €3,308.3 million from December 31, 2004, and are shown net of provisions for doubtful accounts in the amount of €20.0 million (€21.5 million in 2004).

An indication of the amounts due within and beyond five years, as well as a breakdown by geographical area, are shown at the end of the section on assets.

#### Trade receivables – €189.0 million

These primarily include receivables from the Single Buyer for the supply of electricity, as well as other trade payables for services, and are shown net of provisions for doubtful accounts in the amount of €7.4 million, which is essentially unchanged from the previous year.

#### Receivables from subsidiaries – €5,751.8 million

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Short-term financing on intercompany current account	5,189.3	8,420.3	(3,231.0)
Other short-term financing	120.0	220.0	(100.0)
Trade receivables	51.2	68.0	(16.8)
Other receivables	391.3	201.5	189.8
<b>Total</b>	<b>5,751.8</b>	<b>8,909.8</b>	<b>(3,158.0)</b>

At December 31, 2005, the above receivables break down by Group company as follows:

Millions of euro	Short-term financing on intercompany current account	Other short-term financing	Trade receivables	Other receivables	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Enel Produzione	2,856.0	-	23.5	97.9	2,977.4	4,607.8	(1,630.4)
Enel Distribuzione	854.6	-	11.2	18.3	884.1	539.3	344.8
Enel Rete Gas	531.2	-	1.7	11.1	544.0	576.2	(32.2)
Enel Gas	372.5	-	3.5	51.7	427.7	621.3	(193.6)
Enel.Factor	193.4	-	0.1	6.8	200.3	341.4	(141.1)
Enel Trade	178.5	-	2.9	63.2	244.6	279.1	(34.5)
Electra De Viesgo Distribución	96.3	-	-	3.5	99.8	152.3	(52.5)
Avisio Energía	40.9	-	-	1.0	41.9	38.9	3.0
Enel New.Hydro	28.7	-	0.1	0.8	29.6	24.8	4.8
Enel Sole	22.4	-	0.3	5.4	28.1	31.5	(3.4)
Enel Investment Holding	-	-	0.2	29.7	29.9	1,114.8	(1,084.9)
Dalmazia Trieste	-	120.0	0.8	11.8	132.6	221.0	(88.4)
Other	14.8	-	6.9	90.1	111.8	361.4	(249.6)
<b>Total</b>	<b>5,189.3</b>	<b>120.0</b>	<b>51.2</b>	<b>391.3</b>	<b>5,751.8</b>	<b>8,909.8</b>	<b>(3,158.0)</b>

The decrease for the period is primarily attributable to the lower operating needs of Enel Produzione and Enel Investment Holding, as well as to the partial repayment of the short-term financing granted to Dalmazia Trieste (€100.0 million).

The financial receivables from Group companies accrue interest at market rates.

At December 31, 2005, "Trade receivables" came to €51.2 million and are related to services provided by Enel SpA to its subsidiaries.

"Other receivables" refer to interest income accrued through December 31, 2005, on intercompany current accounts which was paid on January 1, 2006, as well as to receivables resulting from the settlement of Group VAT and corporate income tax (IRES) following the adoption of the consolidated taxation mechanism.

#### Receivables from associated companies – €12.2 million

This amount is primarily related to receivables for services provided by Enel SpA to associates. The €12.0 million increase over December 31, 2004, is essentially due to the reclassification of Wind as an associate.

#### Tax receivables – €575.2 million

Tax receivables total €575.2 million and are primarily related to VAT receivable for the Group in the amount of €17.8 million (€232.7 million in 2004), as well as interest on taxes in the amount of €27.5 million (€39.5 million in 2004) and IRES receivable in the amount of €488.0 million following

the application of the national consolidated taxation mechanism, which will be offset by amounts due as payments on account for 2006.

#### Deferred tax assets – €401.8 million

Changes in deferred tax assets for 2005 are as follows:

Millions of euro	Balance at Dec. 31, 2004	Ordinary changes	Balance <sup>(1)</sup> at Dec. 31, 2005
Deferred tax assets:			
> on provisions for risks and charges	44.6	0.6	45.2
> on provisions for doubtful accounts	2.5	-	2.5
> on writedowns of investments deductible over 5 years	533.3	(233.0)	300.3
> other items	49.0	4.8	53.8
<b>Total</b>	<b>629.4</b>	<b>(227.6)</b>	<b>401.8</b>

(1) Taxes calculated based on an IRES rate of 33% and IRAP rate of 5.25%.

The €227.6 million decrease is primarily related to the deduction of writedowns on investments made in past years.

It should also be noted that, in line with the new IRES fiscal regime, deferred tax assets were not recognized on the taxable loss for the period, as the related amount is recoverable during the period under the national consolidated taxation mechanism.

#### Other receivables – €170.2 million

Other receivables increased by €57.2 million and are shown net of provisions for doubtful accounts in the amount of €12.6 million.

Below is a breakdown of the balance at December 31, 2005, as well as the changes from the previous year:

Millions of euro	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Advances to suppliers and social and recreational associations	130.7	72.0	58.7
Social security receivables	5.6	5.9	(0.3)
Other items	33.9	35.1	(1.2)
<b>Total</b>	<b>170.2</b>	<b>113.0</b>	<b>57.2</b>

The "Advances to suppliers and social and recreational associations" refer to the advance payment at the end of 2005 of the fixed portion of electricity supply by EdF for all of 2006 (the same amount is included among trade payables), as well as to advance payments of contributions due to social and recreational associations (the same amount is included among other payables).

#### Receivable from the Electricity Equalization Fund – €393.8 million

This item refers to the residual receivable for contributions on the purchase of electricity from third parties and for the reimbursement of stranded costs related to natural gas imported from Nigeria. The €163.7 million decrease is related to the receipt of a portion of these receivables.

#### Current financial assets – €492.3 million

##### Other securities – €492.3 million

Other securities include solely the special series of bonds reserved to employees issued by Enel SpA (" *Serie speciale riservata al personale* "), which were repurchased as part of the transactions as required by the bond's rules.

#### Cash and cash equivalents – €45.6 million

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Bank deposits	45.0	19.9	25.1
Postal deposits	0.5	0.4	0.1
<b>Total</b>	<b>45.5</b>	<b>20.3</b>	<b>25.2</b>
Cash on hand	0.1	0.1	-
<b>TOTAL</b>	<b>45.6</b>	<b>20.4</b>	<b>25.2</b>

Bank deposits include balances related to operations.

Of the total cash and cash equivalents, €0.7 million are restricted by encumbrances.

## Accrued income and prepaid expenses – €84.4 million

The balance and changes in this item break down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
<b>Accrued income:</b>			
> financial income	30.5	89.2	(58.7)
<b>Total</b>	<b>30.5</b>	<b>89.2</b>	<b>(58.7)</b>
<b>Prepaid expenses:</b>			
> financial expenses	53.5	52.0	1.5
> operating expenses	0.4	0.3	0.1
<b>Total</b>	<b>53.9</b>	<b>52.3</b>	<b>1.6</b>
<b>TOTAL</b>	<b>84.4</b>	<b>141.5</b>	<b>(57.1)</b>

Financial accrued income is primarily related to the debiting of interest accrued on financing transferred to subsidiaries, while the financial component of prepaid expenses primarily includes costs and discounts on debt issued, as well as prepaid interest expense.

The tables below show a breakdown of receivables by due date and geographical area:

Millions of euro	Within 1 year	From 2 to 5 years	Beyond 5 years	Total
<b>NON-CURRENT FINANCIAL RECEIVABLES</b>				
Receivables from subsidiaries	86.7	1,337.1	516.0	1,939.8
Other receivables	178.8	0.7	1.8	181.3
<b>Total non-current financial receivables</b>	<b>265.5</b>	<b>1,337.8</b>	<b>517.8</b>	<b>2,121.1</b>
<b>CURRENT RECEIVABLES</b>				
Trade receivables	189.0	-	-	189.0
Receivables from subsidiaries and associates	5,764.0	-	-	5,764.0
Receivables from the Electricity Equalization Fund	393.8	-	-	393.8
Tax receivables	575.2	-	-	575.2
Deferred tax assets	334.4	67.4	-	401.8
Other receivables	170.2	-	-	170.2
<b>Total current receivables</b>	<b>7,426.6</b>	<b>67.4</b>	<b>-</b>	<b>7,494.0</b>
<b>TOTAL</b>	<b>7,692.1</b>	<b>1,405.2</b>	<b>517.8</b>	<b>9,615.1</b>



Millions of euro	Italy	Other EU countries	Rest of Europe	Other	Total
<b>NON-CURRENT FINANCIAL RECEIVABLES</b>					
Receivables from subsidiaries	1,939.8	-	-	-	1,939.8
Other receivables	3.0	10.3	168.0	-	181.3
<b>Total non-current financial receivables</b>	<b>1,942.8</b>	<b>10.3</b>	<b>168.0</b>	<b>-</b>	<b>2,121.1</b>
<b>CURRENT RECEIVABLES</b>					
Trade receivables	92.3	93.5	3.2	-	189.0
Receivables from subsidiaries	5,612.4	138.7	-	0.7	5,751.8
Receivables from associates	12.2	-	-	-	12.2
Other receivables	1,468.5	72.5	-	-	1,541.0
<b>Total current receivables</b>	<b>7,185.4</b>	<b>304.7</b>	<b>3.2</b>	<b>0.7</b>	<b>7,494.0</b>
<b>TOTAL RECEIVABLES</b>	<b>9,128.2</b>	<b>315.0</b>	<b>171.2</b>	<b>0.7</b>	<b>9,615.1</b>

## Balance sheet – Liabilities and shareholders' equity

### Shareholders' equity

The changes over the last three years are shown below:

Millions of euro	Share capital	Share premium reserve	Legal reserve	Reserve pursuant to Law 292/93	Other reserves	Retained earnings	Income for the year	Total
<b>Balance at Dec. 31, 2002</b>	<b>6,063.1</b>	<b>-</b>	<b>1,452.1</b>	<b>2,215.4</b>	<b>39.1</b>	<b>1,397.4</b>	<b>2,405.4</b>	<b>13,572.5</b>
Shareholder res. of May 23, 2003:								
Distribution of 2002 earnings:								
> dividends	-	-	-	-	-	-	(2,182.7)	(2,182.7)
> allocation to reserves	-	-	-	-	-	222.7	(222.7)	-
<b>2003 net income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>607.3</b>	<b>607.3</b>
<b>Balance at Dec. 31, 2003</b>	<b>6,063.1</b>	<b>-</b>	<b>1,452.1</b>	<b>2,215.4</b>	<b>39.1</b>	<b>1,620.1</b>	<b>607.3</b>	<b>11,997.1</b>
Shareholder res. of May 21, 2004:								
> exercise of stock options	40.4	200.2	-	-	-	-	-	240.6
Distribution of 2003 earnings:								
> dividends	-	-	-	-	-	(1,591.4)	(603.6)	(2,195.0)
> allocation to reserves	-	-	-	-	-	3.7	(3.7)	-
2004 earnings:								
> interim dividend	-	-	-	-	-	-	(2,013.9)	(2,013.9)
<b>2004 net income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,272.0</b>	<b>7,272.0</b>
<b>Balance at Dec. 31, 2004</b>	<b>6,103.5</b>	<b>200.2</b>	<b>1,452.1</b>	<b>2,215.4</b>	<b>39.1</b>	<b>32.4</b>	<b>5,258.1</b>	<b>15,300.8</b>
Shareholder res. of May 26, 2005:								
> exercise of stock options	53.6	285.3	-	-	-	-	-	338.9
Distribution of 2004 earnings:								
> dividends	-	-	-	-	-	-	(2,213.6)	(2,213.6)
> allocation to reserves	-	-	-	-	-	3,044.5	(3,044.5)	-
2005 earnings:								
> interim dividend	-	-	-	-	-	-	(1,169.4)	(1,169.4)
<b>2005 net income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,714.9</b>	<b>2,714.9</b>
<b>BALANCE AT DEC. 31, 2005</b>	<b>6,157.1</b>	<b>485.5</b>	<b>1,452.1</b>	<b>2,215.4</b>	<b>39.1</b>	<b>3,076.9</b>	<b>1,545.5</b>	<b>14,971.6</b>

Between February 3 and December 31, 2005, a total of 53,549,782 of the options awarded as part of the 2001-2004 stock option plans were exercised, which resulted in an increase in shareholders' equity of €338.9 million, with an increase in share capital of €53.6 million and in share premium reserve of €285.3 million.

Furthermore, on June 23, 2005, as authorized by the shareholders on May 26, 2005, dividends were paid for a total of €2,213.6 million, or €0.36 per share. In September 2005, in accordance with Article 2433 bis of the Italian Civil Code and Article 26.3 of the Company's bylaws, the Board of Directors also authorized the payment, on November 24, 2005, of an interim dividend for 2005 in the amount of €0.19 per share, for a total of €1,169.4 million.

**Share capital – €6,157.1 million**

Share capital is made up of 6,157,071,646 ordinary shares with a par value of €1.00 each.

At December 31, 2005, based on the shareholder register and other available information, the only shareholders who hold more than 2% of the Company's share capital are the Ministry for the Economy and Finance (with a 21.40% stake) and a company that this ministry controls, Cassa Depositi e Prestiti SpA (with a 10.19% stake).

**Legal reserve – €1,452.1 million**

The legal reserve amounts to 23.58% of share capital.

**Reserve pursuant to Law 292/1993 – €2,215.4 million**

This reserve represents the remaining portion of value adjustments made as part of the process of transforming Enel from a public entity to a company limited by shares.

In the event of a distribution of this reserve, the tax treatment for capital reserves as defined by Article 47 of the Uniform Tax Code shall apply.

**Other reserves – €39.1 million**

This includes €19.0 million related to the reserve for capital grants, which reflects 50% of the grants received from the Italian government and from EU bodies in application of related laws, in order to carry out new works (pursuant to Article 55 of Presidential Decree 917/1986), which is recognized in equity in order to take advantage of tax deferment benefits.

**Retained earnings – €3,076.9 million**

The €3,044.5 million increase corresponds with the net income for 2004, which was carried forward as per shareholder resolution of May 26, 2005 (at the meeting to approve the 2004 financial statements).

There are no restrictions on the distribution of this reserve, in accordance with Article 2426.1(5) of the Civil Code, given that there are no start-up and expansion costs or non-amortized costs for research and development or other exceptions pursuant to Article 2423.4.

The table below shows the availability of shareholders' equity:

Millions of euro	Amount	Possible uses	Portion available
<b>Share capital</b>	<b>6,157.1</b>		
<b>Capital reserves:</b>			
> share premium reserve	485.5	A, B, C	485.5
<b>Income reserves:</b>			
> legal reserve	1,452.1	B	220.7
> reserve pursuant to Law 292/1993	2,215.4	A, B, C	2,215.4
> reserve for capital grants	19.0	A, B, C	19.0
> other	20.1	A, B, C	20.1
> reserve for departures pursuant to Article 2423.4 of Civil Code	-		
> retained earnings	3,076.9	A, B, C	3,076.9
<b>Total</b>	<b>13,426.1</b>		<b>6,037.6</b>
Portion that cannot be distributed	-		-
Remainder that can be distributed	-		6,037.6

A: for capital increases

B: to cover losses

C: for distribution to shareholders

## Provisions for risks and charges

Changes in provisions for risks and charges are shown in the table below:

Millions of euro	Accruals		Uses	
	at Dec. 31, 2004			at Dec. 31, 2005
Retirement benefits and similar obligations	397.9	22.3	(33.8)	386.4
Taxes (included deferred)	5.2	34.4	(1.4)	38.2
Other provisions:				
> litigation and other risks	100.5	52.5	(45.7)	107.3
> charges on equity investments	542.5	171.7	(2.1)	712.1
> charges for restructuring financial instruments	7.1	-	(0.6)	6.5
> early retirement incentives	6.1	4.1	(6.1)	4.1
<b>Total</b>	<b>656.2</b>	<b>228.3</b>	<b>(54.5)</b>	<b>830.0</b>
<b>TOTAL PROVISIONS FOR RISKS AND CHARGES</b>	<b>1,059.3</b>	<b>285.0</b>	<b>(89.7)</b>	<b>1,254.6</b>

#### **Provision for retirement benefits and similar obligations – €386.4 million**

This provision includes €385.8 million in respect of the present value of the expected future benefits for retired executives. The related provision for the present value adjustment of these future benefits came to €22.2 million, while disbursements for the year came to €33.7 million.

Following the transfer of the various business units, obligations to retired executives, which remained by force of law with Enel SpA, have been transferred to the companies receiving these business units (valid solely for internal purposes pursuant to Article 1273 of the Civil Code), recording the receivable resulting from the transfer among non-current financial assets of the transferring company, as described in the notes to that item, and recognizing the costs debited to the companies under other income. As a result, as of the end of 2005, the amount of the fund for Enel SpA as regards the supplemental pension benefits for retired executives, net of the receivables resulting from the transfer of debt, is €101.5 million.

Similarly, the related provision, net of the portions attributable to the subsidiaries, was €5.3 million. The provision also includes indemnities in lieu of notice to personnel working for Enel SpA.

#### **Provision for taxes (included deferred) – €38.2 million**

Tax provisions for 2005 primarily include the provision of €34.1 million for deferred tax liabilities related to writedowns of equity investments in the telecommunications industry carried out in previous years.

The remainder of the deferred taxes is related to the amortized gains on the sale of vehicles which took place in 2002, as well as the gain on the sale of the investment in Enel Distribuzione Gas.

#### **Other – €830.0 million    Provision for litigation and other risks – €107.3 million**

This provision covers potential liabilities that could arise from legal proceedings and other disputes, without considering the effects of judgments that are expected to be in the Company's favor and those for which any charge cannot be quantified with reasonable certainty. For these, see the section regarding "Off-balance-sheet items". In determining the balance of the provision, we have taken account of both the charges that are expected to result from court rulings and other dispute settlements for the year and an update of the estimates for positions arising in previous years not related to the transferred business units, given that this transfer also involved the transfer of legal relations, including disputes. As a result, Enel SpA arranged for the individual recipient companies of the transferred business units to take part in the disputes in order to be excluded from the related judgments. The allocations for the year reflect the adjustment of the disputes outstanding at December 31, 2005, based on information provided by in-house and external counsel, as well as the charge related to the potential exercise of options by the beneficiaries of the 2002-2004 stock option plans in relation to the commitment undertaken by Enel SpA to pay a "one-off" supplemental remuneration based on the previously distributed dividends financed with disposal proceeds. Uses primarily include €31.4 million for the payment to the ISO for the right to use transport

capacity (the so-called congestion fee) and €10.9 million for the payment of the charge related to the exercise of options by beneficiaries of the stock option plans.

**Provision for charges on equity investments – €712.1 million**

This provision includes the value of the planned coverage of the equity deficit of Enel Investment Holding, which has increased by €171.7 million from the previous year as a result of the losses posted by the company during the year.

**Provision for charges for restructuring financial instruments – €6.5 million**

This provision includes the charges resulting from the restructuring of derivative contracts (interest rate swaps) initiated in previous years with financial counterparties in order to hedge the interest rate risk on medium and long-term debt that was paid in full in advance.

Uses of the provision in 2005 totaled €0.6 million.

**Provision for early retirement incentives – €4.1 million**

The provision for charges related to early retirement incentives includes the provisions for estimated extraordinary charges related to proposed early retirement incentives in response to organizational needs.

**Severance benefit** Changes for 2005 are as follows:

Millions of euro

<b>Balance at Dec. 31, 2004</b>	<b>11.2</b>
Accruals	3.8
Ordinary disbursements	(2.8)
Share allocated to pension funds	(0.8)
Other changes (acquisitions/contract transfers)	(0.1)
<b>BALANCE AT DEC. 31, 2005</b>	<b>11.3</b>

This item includes amounts accrued for employees upon termination of their employment relationship as required under applicable Italian law, net of advances granted to employees for healthcare expenses, the purchase of a first home, and for the purchase of shares in Enel SpA and Terna SpA, as well as the shares allocated to the Enel management pension fund (FONDENEL) and the Enel employee pension fund (FOPEN).

**Debt and payables** An indication of the amounts due within and beyond five years, as well as a breakdown by geographical area, are shown at the end of the section on liabilities.

**Bonds – €8,138.6 million**

**Medium and long-term bank debt – €250.7 million**

These items reflect the debt related to bonds and other medium and long-term financing denominated in euro and other currencies.

Medium and long-term debt outstanding at December 31, 2005, includes bonds guaranteed by the Italian government in the amount of €1,370.4 million (€1,411.7 million at the end of 2004) and bank debt guaranteed by the Italian government in the amount of €90.7 million (€133.2 million at the end of 2004).

An analysis of debt at December 31, 2005, by type (bonds or bank debt), interest rate (fixed or floating), and maturity is shown below, both before and after the amounts assumed from the subsidiaries, as described in greater detail in the section on “Receivables from subsidiaries” among the notes to non-current financial assets.

Millions of euro	Maturity period	Maturing				Portion maturing subsequently				
		at Dec. 31, 2004	at Dec. 31, 2005	2006	Long-term portion	2007	2008	2009	2010	beyond
<b>Bonds:</b>										
> listed, fixed rate	2006-2031	5,075.0	4,925.0	225.0	4,700.0	-	1,000.0	-	-	3,700.0
> listed, floating rate	2006-2012	252.0	652.0	166.0	486.0	-	-	86.0	-	400.0
> unlisted, fixed rate	2006-2008	194.5	118.3	44.8	73.5	-	73.5	-	-	-
> unlisted, floating rate	2006-2023	2,284.2	2,360.2	20.8	2,339.4	22.0	21.1	330.0	54.1	1,912.2
> EU institutions, fixed rate	2006-2010	115.6	77.4	36.1	41.3	30.8	9.5	0.7	0.3	-
> EU institutions, floating rate	2006-2009	8.6	5.7	2.8	2.9	1.0	1.0	0.9	-	-
<b>Total</b>		<b>7,929.9</b>	<b>8,138.6</b>	<b>495.5</b>	<b>7,643.1</b>	<b>53.8</b>	<b>1,105.1</b>	<b>417.6</b>	<b>54.4</b>	<b>6,012.2</b>
<b>Bank loans:</b>										
> fixed rate	2006-2012	13.4	8.4	4.0	4.4	2.3	1.3	0.2	0.2	0.4
> floating rate	2006	1,739.8	151.6	151.6	-	-	-	-	-	-
> EU institutions, fixed rate	2006-2009	121.2	84.7	29.7	55.0	29.5	12.3	13.2	-	-
> EU institutions, floating rate	2006	12.0	6.0	6.0	-	-	-	-	-	-
<b>Total</b>		<b>1,886.4</b>	<b>250.7</b>	<b>191.3</b>	<b>59.4</b>	<b>31.8</b>	<b>13.6</b>	<b>13.4</b>	<b>0.2</b>	<b>0.4</b>
<b>Total</b>		<b>9,816.3</b>	<b>8,389.3</b>	<b>686.8</b>	<b>7,702.5</b>	<b>85.6</b>	<b>1,118.7</b>	<b>431.0</b>	<b>54.6</b>	<b>6,012.6</b>
Share of Enel SpA debt transferred to subsidiaries:										
> fixed rate		1,208.8	1,142.3	59.7	1,082.6	53.1	1,015.7	13.5	0.3	-
> floating rate		684.5	513.2	27.0	486.2	10.3	10.5	233.7	-	231.7
<b>Total</b>		<b>1,893.3</b>	<b>1,655.5</b>	<b>86.7</b>	<b>1,568.8</b>	<b>63.4</b>	<b>1,026.2</b>	<b>247.2</b>	<b>0.3</b>	<b>231.7</b>
<b>TOTAL NET OF PORTION TRANSFERRED/ALLOCATED</b>		<b>7,923.0</b>	<b>6,733.8</b>	<b>600.1</b>	<b>6,133.7</b>	<b>22.2</b>	<b>92.5</b>	<b>183.8</b>	<b>54.3</b>	<b>5,780.9</b>

The balance of unlisted floating-rate bonds includes €492.3 million related to the special series of 1994-2019 bonds reserved to employees, which have been repurchased by Enel SpA and recorded on the balance sheet among "Other current securities".

The table below shows the medium and long-term financing along with an indication of the currency and the average nominal interest rate in effect as of year-end:

Millions of euro	Maturity	Average interest		Average interest	
		Balance	rate (%)	Balance	rate (%)
at Dec. 31, 2004				at Dec. 31, 2005	
Euro	2006-2031	9,637.6	4.19	8,228.9	4.12
US dollar	2008	2.2	6.10	1.1	6.35
UK pound	2007	6.0	9.78	4.1	9.78
Swiss franc	2007-2009	29.8	6.78	21.7	6.70
Yen	2006-2010	140.7	1.60	133.4	1.41
Total non-euro		178.7		160.4	
TOTAL		9,816.3		8,389.3	

The change in bonds and other medium and long-term bank debt for the year is summarized in the table below:

Millions of euro		Repayment/ redemptions	Additions	Exchange rate differences	
at Dec. 31, 2004					at Dec. 31, 2005
Fixed-rate bonds	5,385.1	864.4	600.0	-	5,120.7
Floating-rate bonds	2,544.8	23.9	497.0	-	3,017.9
Fixed-rate bank loans	134.5	41.3	-	(0.1)	93.1
Floating-rate bank loans	1,751.9	1,694.3	100.0	-	157.6
<b>Total</b>	<b>9,816.3</b>	<b>2,623.9</b>	<b>1,197.0</b>	<b>(0.1)</b>	<b>8,389.3</b>

Compared with December 31, 2004, bonds and medium and long-term bank debt posted a net decrease on the whole of €1,427.0 million as the net effect of new debt of €1,197.0 million, repayments and redemptions of €2,623.9 million, and net positive exchange rate differences of €0.1 million. Redemptions in 2005 primarily involved a €750.0 million bond issue for Enel SpA which matured in December.



Of note among the most significant financial transactions is the issuance on March 10, 2005, of two 7-year bonds for Italian retail investors in the amount of €400 and €600 million, the conditions of which are shown below:

	7-year floating-rate tranche	7-year fixed-rate tranche
Amount	€400 million	€600 million
Redemption	Sole payment on March 14, 2012	Sole payment on March 14, 2012
Yield	6m-Euribor + 0.10%	3.625% annually
Issue price	100.00	99.836
Early redemption	Not allowed	Not allowed
Listed in	Milan	Milan

In November, a new syndicated revolving €5 billion line of credit was also established to replace the €3 billion line of credit granted in December 2003. The new credit line has a duration of five years with an option for it to be extended for a further two years.

At December 31, 2005, about 38% of medium and long-term debt bore interest at floating rates. However, in order to reduce the amount of debt exposed to interest rate fluctuations, interest rate swaps with a total nominal value of €2,150.8 million were established at year-end. Considering this hedge, the portion of medium and long-term debt that is still exposed to interest rate risk is about 20% of the total.

At December 31, 2005, the current value of interest rate derivative instruments was a negative €131.9 million, net of €24.7 million related to three currency swaps (related to the same number of yen bonds issued in 2001 through private placement as part of the Medium Term Notes program), the value of which is already included under bonds, as well as €13.7 million in accruals and provisions that have already been recorded. The negative value of the hedging position, primarily due to the significant reduction in interest rates in recent years, is largely offset by the reduction in finance costs related to the floating-rate portion of debt.

For additional information, see the section "Disclosures on financial instruments" below.

#### Short-term bank debt – €752.7 million

At December 31, 2005, short-term bank debt totaled €752.7 million, a decrease of €1,550.7 million from December 31, 2004, due primarily to the sale of the 43.85% stake in Terna SpA and fewer loans granted to Enel Investment Holding following the sale of the 62.75% stake in Wind to Weather Investments.

#### Advances – €10,820

This item includes advance payments received from third parties for various sales.

**Trade payables – €307.9 million**

Trade payables includes payables for the provision of energy, materials, and equipment, as well as for the provision of various services during the year ended December 31, 2005.

**Payables to subsidiaries – €1,760.6 million**

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Intercompany current account	1,214.8	1,962.4	(747.6)
Trade payables	48.6	41.9	6.7
Other payables	497.2	318.3	178.9
<b>Total</b>	<b>1,760.6</b>	<b>2,322.6</b>	<b>(562.0)</b>

At December 31, 2005, the above payables breaks down by Group company as follows:

Millions of euro	Intercompany current account	Trade payables	Other payables	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Enelpower	424.1	0.2	7.9	432.2	300.3	131.9
Viesgo Generación	247.5	-	4.4	251.9	190.4	61.5
Enel Servizi Srl (formerly Enel Ape)	183.8	46.8	5.4	236.0	12.8	223.2
Enel Investment Holding	176.2	-	13.8	190.0	803.3	(613.3)
Enel Energia	84.1	-	0.7	84.8	10.8	74.0
Dalmazia Trieste	46.5	-	1.5	48.0	34.0	14.0
Enel Finance International	19.5	-	0.7	20.2	29.0	(8.8)
Iridea	8.3	-	-	8.3	1.7	6.6
Enel Capital	6.0	-	0.1	6.1	6.0	0.1
Enel Produzione	-	0.4	195.2	195.6	148.8	46.8
Enel Distribuzione	-	0.5	253.9	254.4	17.7	236.7
Other	18.8	0.7	13.6	33.1	767.8	(734.7)
<b>Total</b>	<b>1,214.8</b>	<b>48.6</b>	<b>497.2</b>	<b>1,760.6</b>	<b>2,322.6</b>	<b>(562.0)</b>

The “Intercompany current account” represents the balance of treasury transactions between Enel SpA and its subsidiaries and associates, which bear interest at market rates. This item decreased from the previous year by €747.6 million, which is essentially due to the lower operating needs of the Group companies.

“Trade payables” are related to the provision of various goods and services, primarily leases and property services and the purchase of software licenses.

“Other payables” include interest expense accrued on the intercompany current accounts at December 31, 2005, which were paid on January 1, 2006, the settlement of Group VAT, and the payable related to participation of a number of Group companies in the consolidated taxation mechanism.

#### Payables to associated companies – €1.0 million

This includes trade payables for various services received as of December 31, 2005.

#### Tax payables – €3.7 million

This item breaks down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
Withholdings made as tax collection agent	3.4	2.9	0.5
Income taxes	-	23.6	(23.6)
Other	0.3	0.3	-
<b>Total</b>	<b>3.7</b>	<b>26.8</b>	<b>(23.1)</b>

There is no payable for income tax as taxable income is negative both for the Italian regional business tax (IRAP) and for corporate income tax (IRES), as described in greater detail in the notes to the income statement.

The company's tax position is still to be defined for financial years starting from 2001, both in terms of income tax and VAT.

#### Social security payables – €8.4 million

This item includes the payable for contributions to be paid by the company on salaries paid, on amounts accrued and not paid to employees for unused holiday time, and on overtime and other compensation for the month of December to paid in January, as well as that related to employee withholdings.

#### Other payables – €161.7 million

Other payables refer primarily to amounts payable to bond holders for interest, to employees, to the ISO for green certificates and to employee associations.

## Accrued liabilities and deferred income

### Accrued liabilities and deferred income – €162.4 million

The balance and changes in this item break down as follows:

Millions of euro

	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
<b>Accrued liabilities:</b>			
> financial expense	153.2	176.0	(22.8)
<b>Total</b>	<b>153.2</b>	<b>176.0</b>	<b>(22.8)</b>
<b>Deferred income:</b>			
> financial income	9.0	4.7	4.3
> operating income	0.2	0.1	0.1
<b>Total</b>	<b>9.2</b>	<b>4.8</b>	<b>4.4</b>
<b>TOTAL</b>	<b>162.4</b>	<b>180.8</b>	<b>(18.4)</b>

Accrued financial liabilities mostly involve accrued interest expense on outstanding debt as of the end of the year.

Deferred interest refers to premiums on bond issues, as well as to the rebilling of costs on the takeover of financing.

The tables below show the breakdown of debt and payables by maturity and geographical area:

Millions of euro	Within 1 year	From 2 to 5 years	Beyond 5 years	Total
<b>DEBT</b>				
Bonds	495.5	1,630.9	6,012.2	8,138.6
Medium and long-term bank loans	191.3	59.0	0.4	250.7
Short-term bank loans	752.7	-	-	752.7
<b>Total financial debt</b>	<b>1,439.5</b>	<b>1,689.9</b>	<b>6,012.6</b>	<b>9,142.0</b>
<b>OTHER PAYABLES</b>				
Trade payables	307.9	-	-	307.9
Payables to:		-		
> subsidiaries	1,760.6	-	-	1,760.6
> associated companies	1.0	-	-	1.0
Tax payables	3.7	-	-	3.7
Social security payables	8.4	-	-	8.4
Other payables	161.7	-	-	161.7
<b>Total other payables</b>	<b>2,243.3</b>	<b>-</b>	<b>-</b>	<b>2,243.3</b>
<b>TOTAL</b>	<b>3,682.8</b>	<b>1,689.9</b>	<b>6,012.6</b>	<b>11,385.3</b>

Millions of euro	Italy	Other EU countries	Rest of Europe	Other	Total
<b>Debt and payables by geographical area</b>					
Trade payables	117.6	108.2	82.1	-	307.9
Bonds	3,320.2	4,818.4	-	-	8,138.6
Bank loans	912.7	90.7	-	-	1,003.4
Payables to subsidiaries	1,295.3	464.3	0.1	0.9	1,760.6
Payables to associates	1.0	-	-	-	1.0
Other payables	161.7	-	-	-	161.7
<b>Total</b>	<b>5,808.5</b>	<b>5,481.6</b>	<b>82.2</b>	<b>0.9</b>	<b>11,373.2</b>

## Commitments

### Guarantees and other commitments – €25,010.4 million

Guarantees and commitments include amounts related to security deposits, sureties, risks, and various commitments, as shown below:

Millions of euro	at Dec. 31, 2005	at Dec. 31, 2004	2005-2004
<b>GUARANTEES GIVEN</b>			
Sureties on loans to:			
> third parties	759.1	811.0	(51.9)
> subsidiaries	9,514.5	10,434.1	(919.6)
> associates and other	14.1	14.1	-
Collateral pledged:			
> third parties	9.0	-	9.0
<b>Total</b>	<b>10,296.7</b>	<b>11,259.2</b>	<b>(962.5)</b>
<b>OTHER COMMITMENTS</b>			
Commitments to suppliers for:			
> electricity purchases	2,454.6	3,024.7	(570.1)
> various provisions	45.6	59.6	(14.0)
Commitments for interest rate risk hedging (swaps):			
> third parties	2,434.4	3,285.9	(851.5)
> subsidiaries	2,384.4	2,635.9	(251.5)
Commitments for commodity-risk hedging:			
> third parties	26.7	17.9	8.8
> subsidiaries	148.5	17.9	130.6
Commitments for forward currency purchases:			
> third parties	1,775.0	1,671.5	103.5
> subsidiaries	1,915.0	1,245.8	669.2
Commitments for forward currency sales:			
> third parties	1,571.7	939.9	631.8
> subsidiaries	1,957.8	1,828.5	129.3
Other guarantees to lenders	-	51.7	(51.7)
<b>Total</b>	<b>14,713.7</b>	<b>14,779.3</b>	<b>(65.6)</b>
<b>TOTAL</b>	<b>25,010.4</b>	<b>26,038.5</b>	<b>(1,028.1)</b>

Sureties granted to third parties involve those that were issued by the Parent Company in conjunction with the sale to third parties of certain business units of Enel and its subsidiaries, including:

- > a €744 million guarantee in the sale of property related to the rules governing the right to withdrawal from lease contracts (€619 million) and lease payments for a period of six years and six months beginning in July 2004 (€125 million). Both guarantees are subject to reductions of a preset amount at the end of each year;
- > a €15 million guarantee given in conjunction with the sale of Enel.Hydro.

Sureties given on behalf of subsidiaries include:

- > a €3,488 million guarantee given on behalf of Enel Investment Holding to cover bonds in the amount of €988 million and a commercial paper program in the amount of €2,500 million;
- > a €1,800 million guarantee given to the European Investment Bank (EIB) for loans granted to Enel Distribuzione and Enel Produzione;
- > a €525 million counter-guarantee issued to banks that provided guarantees to the EIB for a loan granted to Enel Distribuzione;
- > a €463 million guarantee issued on behalf of Enelpower to cover commitments assumed towards customers or in order to support the granting of bank sureties in favor of customers;
- > a €1,950 million guarantee given by Enel SpA to the Single Buyer on behalf of Enel Distribuzione SpA for obligations assumed as part of the contract for the purchase of electricity;
- > a €620 million guarantee issued by Enel SpA to the Italian tax authorities for participation in the Group VAT mechanism by Enel Energia, Avisio Energia, Cise, and Enel Capital;
- > €668 million in various guarantees given as part of the financial assistance activities provided by the holding company on behalf of the subsidiaries, as well as €5 million for guarantees given on behalf of Enel NewHydro for compensation obligations it assumed in relation to representations and guarantees given in conjunction with the sale of the Ismes business unit.

The collateral pledged concerns the pledge of Idrosicilia shares to secure a loan granted to the Sicilacque subsidiary, in which Idrosicilia holds a 75% stake.

Commitments for the purchase of electricity are related to foreign supplies and break down as follows:

Millions of euro

Period:	
2006-2010	2,127.7
2011-2015	326.9
<b>Total</b>	<b>2,454.6</b>

The commitments in respect of interest rate hedges to subsidiaries came to €2,384 million and are related to interest rate swaps that Enel SpA has established with the companies of the Group to hedge against interest rate risk related to debt they have undertaken. Similarly, Enel SpA's corresponding positions in the market are indicated among commitments to third parties, as are the interest rate risk hedging positions related to the "pre-hedging" contracts originally established and kept in effect following the €50 million bond issue.

Commitments for commodity-risk hedging essentially involve risk hedging related to the purchase of energy abroad, as well as a swap to hedge against the interest rate risk implicit in the indexing mechanism of the gas transport rate for a total of one billion cubic meters of gas per year.

The commitments for forward currency purchases and sales to subsidiaries is essentially related to coverage provided by Enel SpA for the companies of the Group for trade receivables and payables and other foreign currency cash flows, and was established in order to hedge the subsidiaries' exchange rate risk. Similarly, Enel SpA's corresponding positions in the currency markets for forward currency purchases and sales are shown among commitments to third parties.

The increase in commitments for forward currency purchases and sales over December 31, 2004, is primarily related to the growth in operations to cover exchange rate risk related to commodity risk on behalf of Group companies.

At December 31, 2005, the only hedging transactions that are not associated with a specific underlying position, conducted by Enel SpA in order to optimize exchange rate risk management and limited to the portion still exposed to risk, total €209 million, €15 million of which for a currency option and €194 million for forward contracts. The current value of these transactions is a positive €0.2 million and is related essentially to positions for which risk is, on the whole, self-balancing.

## Disclosures on financial instruments

As part of its operations, Enel is exposed to different market risks, notably the risk of changes in interest rates, exchange rates and commodity prices.

To minimize this exposure, Enel enters into derivatives contracts to hedge individual transactions and overall exposures using instruments available on the market.

Within the context of the Group, transactions related to hedging exchange rate and interest rate are undertaken by Enel SpA, while those related to hedging commodity risk are undertaken by Enel Trade. In accordance with its risk management policy, Enel engages in such transactions primarily to hedge its risks and does not use derivatives for speculative purposes.

Contracts are classified as follows:

- > cash flow hedges, related to hedging the risk of changes in the cash flows on certain medium/long-term floating-rate loans;
- > trading derivatives, related to hedging interest and exchange rate risk and commodity risk but which do not qualify for recognition under IAS 39 as hedges of specific assets, liabilities, commitments or future transactions.

The fair value is determined using the official prices for instruments traded on regulated markets. The fair value of instruments not listed on regulated markets is determined by discounting expected future cash flows on the basis of the market yield curve at the balance sheet date and translating amounts in currencies other than the euro using period-end rates provided by the European Central Bank.

Where possible, contracts relating to commodities are measured using market prices related to the same instruments on both regulated and other markets.

**Interest rate risk** Various types of derivatives are used to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs, especially interest rate swaps.

These contracts are normally agreed with a notional amount and expiry date lower than or equal to that of the underlying financial liability, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

**Exchange rate risk** Various types of derivatives are used to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These include forward contracts and options. These contracts are normally agreed with a notional amount and expiry date equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the euro against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position.



## Commodity risk

Various types of derivatives are used to reduce the exposure to fluctuations in commodity prices, especially swaps.

Exposure to risk is managed through hedging transactions entered into with Enel Trade which hedges the risks of fluctuations in commodity prices on behalf of the Group.

The following table sets out the notional amount and the fair value (positive/negative) for each category of derivative contract in existence on December 31, 2005:

Millions of euro	Notional amount	Fair value	
		Positive	Negative
<b>a) Cash flow hedges</b>			
On interest rates:			
> third parties	1,589.0	0.1	110.0
<b>b) Trading derivatives <sup>(1)</sup></b>			
On interest rates:			
> third parties	2,996.1	12.0	194.9
> Group	2,476.3	156.5	11.2
On exchange rates:			
> third parties	1,871.1	9.3	15.3
> Group	2,014.0	15.4	12.2
On commodities:			
> third parties	26.7	1.8	12.2
> Group	148.5	16.8	1.8
<b>Total</b>	<b>11,121.7</b>	<b>212.0</b>	<b>357.5</b>

(1) Those which do not qualify for hedge accounting under international accounting standards.

## Off-balance-sheet items

### Disputes

#### Litigation on rates

Enel is the target of a series of suits filed by a number of customers that consume large amounts of electricity and who have challenged, in full or in part, the legitimacy of the measures with which first the Interministerial Price Committee (CIP) and then the Authority for Electricity and Gas determined electricity rates in the past. To date, the courts have generally rejected the complaints lodged and an examination of the rulings would indicate that the chance of unfavorable judgments is remote.

#### Out-of-court disputes and litigation connected with the blackout of September 28, 2003

With regard to the blackout that occurred on September 28, 2003, Enel Distribuzione received numerous letters (most drafted on the basis of standardized forms prepared by consumer associations) containing requests for automatic/lump-sum indemnities under the Electricity Service Charter and resolutions of the Authority for Electricity and Gas (€25.82 each), in addition to further damages to be quantified by customers with a view to possible legal action.

Enel Distribuzione challenged these requests with the following arguments: first, neither the Authority resolutions nor the Electricity Service Charter (whose reference legislation has been repealed) provide for automatic/lump-sum indemnities in the case of an interruption of supply, as specified by the Authority in a press release issued on October 2, 2003. Second, the causes of the electricity supply interruption of September 28, 2003 are ascribable to exceptional events beyond the control of the company, for which it cannot therefore be held liable in any way.

With regard to litigation, at December 31, 2005, some 53,000 proceedings were pending against Enel, mainly for small amounts (almost all before justices of the peace in Campania and Calabria). All involved requests for automatic/lump-sum indemnities on the basis of the Authority resolutions and the Electricity Service Charter and, in some cases, damages for alleged injury or loss (pain and suffering, spoiled food, interruption of economic activity, etc.). In view of the manner and intensity with which the blackout took place, Enel believes that it represents an accidental and unpredictable event for which the Group is therefore not liable. For the reasons already explained, Enel further believes that the blackout does not fall among those events for which indemnity is due pursuant to the supply contract or resolutions of the Authority. At December 31, 2005, about 7,000 rulings had been issued, with a majority finding in favor of the plaintiffs. Charges in respect of such indemnities could be recovered at least in part under existing insurance policies. In any case, Enel Distribuzione promptly appealed all adverse rulings to the competent courts. On February 6, 2006 the Court of Santa Maria Capua Vetere, Marcanise section, reversed the ruling of the Justice of Peace of Marcanise following Enel's appeal. The court issued a broad opinion, conclusively rejecting the claims of the customer for lack of any proof of loss, considering the other grounds for appeal merged and therefore declining to issue a specific opinion on those aspects of the case. The decision was especially important in view of the fact that more than 7,000 proceedings are pending before the Justice of Peace of Marcanise.

**INPS Circular no. 63 of May 6, 2005 concerning contribution obligations in respect of the Cassa Integrazione Guadagni (CIG), Cassa Integrazione Guadagni Straordinaria (CIGS), Disoccupazione Involontaria (DS) and Mobilità (unemployment benefit schemes)**

On May 6, 2005, the Italian National Social Security Institute (INPS) issued a circular regarding obligatory contributions to the Cassa Integrazione Guadagni (CIG), Cassa Integrazione Guadagni Straordinaria (CIGS), Disoccupazione Involontaria (DS) and Mobilità (all unemployment benefit programs). In regulating the matter, the circular specified that contributions to be paid in respect of the above programs are also applicable to State-controlled companies and national public entities involved in industrial activities that are not wholly public-owned. These include Enel and companies incorporated by Enel pursuant to Legislative Decree 79 of March 16, 1999, both for the period following the issue of the circular and retroactively as from the date on which they ceased to be entirely owned by public entities (in the case of Enel, as from the date of the IPO, in November 1999).

The circular has been challenged before the first and second level administrative courts, requesting its suspension. The appeal was rejected for reasons of jurisdiction. Enel therefore filed an appeal with the Labor Court, asking it to find that no contribution obligation existed for CIG, CIGS and Mobilità. A hearing was scheduled for May 18, 2006.

With a message dated August 5, 2005, INPS notified Enel that the initial deadline of August 16, 2005 set for the payment of accrued contributions was extended to September 30, 2005. The deadline was subsequently extended to October 31, November 30 and, finally, December 31, 2005. All of the extensions were prompted by the need for further study of the issues involved in view of their complexity. Enel maintained constant contact with the social security authorities in order to provide them with all the information necessary to enable them to revise their decision. Finally, INPS felt it advisable to request an opinion from the Council of State and, in a message dated December 27, 2005, extended the deadline for settlement of the obligation until the opinion is issued.

As regards the contribution for the Disoccupazione Involontaria program (involuntary unemployment), in December 2005 the Ministry of Labor, acting on behalf of INPS, initiated an inspection to ascertain whether the conditions exempting Enel SpA and the companies incorporated by it under Legislative Decree 79/1999 from the contributions continued to hold. Enel reserves the right to take all appropriate legal action following the outcome of the inquiry.

In an opinion issued on February 8, 2006, the second section of the Council of State ruled that the circular may not have retroactive effect and that there are no grounds for levying penalties. The Council of State therefore ordered that the circular be amended appropriately.

## Income statement

As mentioned earlier, Enel SpA acts as an industrial holding company defining strategic objectives and coordinating the activities of its subsidiaries and associates, while also retaining title to long-term import contracts for electricity sold to Acquirente Unico SpA (the "Single Buyer").

### Revenues

This item breaks down as follows:

Millions of euro

	2005	2004	2005-2004
<b>Revenues from sales and services:</b>			
> energy sales	813.9	766.8	47.1
> to Group companies	219.5	230.4	(10.9)
> to third parties	28.2	23.6	4.6
<b>Total</b>	<b>1,061.6</b>	<b>1,020.8</b>	<b>40.8</b>
<b>Other revenues:</b>			
> from Group companies	17.5	23.1	(5.6)
> from third parties	8.7	570.6	(561.9)
<b>Total</b>	<b>26.2</b>	<b>593.7</b>	<b>(567.5)</b>
<b>TOTAL REVENUES</b>	<b>1,087.8</b>	<b>1,614.5</b>	<b>(526.7)</b>

Revenues for 2005, in the amount of €1,087.8 million, decreased by €526.7 million from the previous year. This decrease is primarily related to the recording in 2004 of revenues relating to the recognition of the right to the reimbursement of the greater costs incurred in connection with Enel's import of natural gas from Nigeria for the period 2000-2003 (€555.0 million).

"Revenues from energy sales" are related to the sale of electricity to the Single Buyer, which acts as guarantor of the supply to customers on the regulated market.

The €47.1 million increase over 2004 is primarily due to the increase in the average unit price on sales, while volumes of energy imports remained essentially unchanged.

"Revenues from sales and services to Group companies", in the amount of €219.5 million, are primarily related to the provision of services and consulting to subsidiaries and the rebilling to these subsidiaries of various costs.

"Revenues from sales and services to third parties" are mostly related to revenues from energy exchanges (€22.3 million) and revenue on the rebilling to the advisor of the Ministry for the Economy and Finance of a portion of the charges incurred for the placement of the fourth tranche of Enel shares.

“ Other revenues from Group companies” amounted to €17.5 million and are related essentially to the rebilling of costs related to supplemental retirement benefits for retired executives that are the responsibility of subsidiaries (€16.9 million).

“ Other revenues from third parties” , in the amount of €8.7 million, fell by €561.9 million, which is primarily related to the aforementioned recording of revenues in 2004 relating to the recognition of the right to the reimbursement of the greater costs incurred in connection with the import of natural gas from Nigeria (€555 million).

## Operating costs

This item breaks down as follows:

Millions of euro

	2005	2004	2005-2004
<b>Raw and ancillary materials, consumables and goods:</b>			
> electricity purchases	603.9	577.1	26.8
> purchases of materials and sundry equipment	3.0	2.4	0.6
<b>Total</b>	<b>606.9</b>	<b>579.5</b>	<b>27.4</b>
Services	196.2	166.1	30.1
Leases and rentals	14.6	12.8	1.8
Personnel	83.1	85.8	(2.7)
Depreciation and amortization	13.1	5.3	7.8
Provisions	67.0	71.2	(4.2)
Other operating costs	81.6	42.7	38.9
<b>TOTAL OPERATING COSTS</b>	<b>1,062.5</b>	<b>963.4</b>	<b>99.1</b>

Costs for “ Electricity purchases” rose by €26.8 million over the previous year, which reflects the prices set by long-term contracts with foreign providers (EdF and ATEL) and includes the cost of energy exchanges.

In 2005, 14,404 million kWh (14,434 million kWh in 2004) of electricity were imported.

Costs for “ Services” include €153.0 million for services provided by third parties and €43.2 million for services provided by Group companies. The latter primarily includes IT and building services provided by Enel Servizi (formerly Enel Ape Srl), as well as telecommunications services provided by Wind. Services provided by third parties increased €18.0 million essentially as a result of the increase in costs for the transport of electricity, as per Resolution no. 48/04 (for the so-called “ congestion fee” ), as well as an increase in costs incurred for extraordinary transactions involving equity investments.

“ Leases and rentals” are essentially related to the lease of office properties, which are rebilled by Enel Servizi (formerly Enel Ape).

"Personnel costs" came to €83.1 million, a decrease of €2.7 million from the previous year.

The table below shows the average number of employees by category, along with a comparison with the previous year.

	Average over the 12 months			Number
	2005	2004	2005-2004	at Dec. 31, 2005
Senior managers	103	97	6	99
Middle managers	224	199	25	226
Office staff	254	271	(17)	244
<b>Total</b>	<b>580</b>	<b>567</b>	<b>13</b>	<b>569</b>

"Amortization" came to €12.1 million (€4.1 million in 2004) and depreciation came to €1.0 million (€1.2 million in 2004), as detailed in the notes to the related asset items.

"Provisions", in the amount of €67.0 million, include €22.2 million for the supplementary retirement benefits for senior managers and €44.8 million for the provision for legal disputes and other risks, as described above in relation to the related items on the balance sheet.

"Other operating costs", in the amount of €81.6 million, increased by €38.9 million from the previous year, which is essentially related to increase in costs for green certificates (€12.8 million) and costs related to the application of Resolution no. 20/04 of the Authority for Electricity and Gas, which led to a reduction in the price of electricity sold to Enel Distribuzione in March 2004 (€15.7 million) following a ruling of the Council of State.

Other operating costs also include the fees and emoluments paid to the Board of Directors and Board of Auditors, as detailed in the specific table included below.

## Financial income and expense

### Income on equity investments – €1,542.5 million

This item is made up of dividends distributed by subsidiaries as detailed below:

Millions of euro	Dividends on 2004 earnings	Interim dividends on 2005 earnings	Total dividends
Cise	6.7	-	6.7
Enel Distribuzione	621.1	-	621.1
Enel Produzione	736.2	-	736.2
Enelpower	47.2	-	47.2
Terna	50.6	6.1	56.7
Enel Trade	69.3	-	69.3
Enel.Factor	4.7	-	4.7
Enel Energia	0.5	-	0.5
Other companies	0.1	-	0.1
<b>Total</b>	<b>1,536.4</b>	<b>6.1</b>	<b>1,542.5</b>

In the third quarter of 2005 in particular, Terna authorized the distribution to shareholders of an interim dividend in the amount of €0.05 per share for a total of €100 million, €6.1 million of which to be paid to Enel SpA.

### Other financial income – €434.5 million

This item breaks down as follows:

Millions of euro	2005	2004	2005-2004
<b>Income on non-current receivables:</b>			
> interest on loans assumed by and granted to subsidiaries	102.8	148.6	(45.8)
> other	28.8	51.6	(22.8)
<b>Total</b>	<b>131.6</b>	<b>200.2</b>	<b>(68.6)</b>
<b>Income on current receivables and trading securities:</b>			
> interest and other income on current accounts with subsidiaries	172.1	131.2	40.9
> interest on bank current accounts	12.2	2.6	9.6
> interest on trading securities	10.9	9.6	1.3
> gains on current and interest rate hedging <sup>(1)</sup>	74.4	80.8	(6.4)
> other	33.3	15.5	17.8
<b>Total</b>	<b>302.9</b>	<b>239.7</b>	<b>63.2</b>
<b>TOTAL</b>	<b>434.5</b>	<b>439.9</b>	<b>(5.4)</b>

(1) Excluding exchange rate differences.

At the end of 2005, financial income totaled €434.5 million, a decline of €5.4 million from 2004, which was essentially due to:

- > a reduction in interest on loans taken assumed by and granted to subsidiaries (€45.8 million) related to repayments made during the year;
- > a €22.8 million reduction resulting from the repayment of the receivable for the deposit of €1,500 million pledged as collateral by Enel SpA to a leading lending institution;
- > an increase in interest accrued on current accounts with subsidiaries in the amount of €40.9 million, and with banks in the amount of €9.6 million;
- > an increase in interest on securities recognized under current assets, which is mainly related to financial income on Enel bonds of the special series reserved to current and retired employees, which were repurchased by the company as part of the transactions called for by the bond's rules.

#### Financial expense – €601.0 million

Millions of euro

	2005	2004	2005-2004
<b>Interest and other expense on medium- and long-term loans:</b>			
> on bond issues	416.1	407.1	9.0
> on bank loans	20.7	58.8	(38.1)
Interest on short-term bank loans	28.7	47.6	(18.9)
<b>Total</b>	<b>465.5</b>	<b>513.5</b>	<b>(48.0)</b>
<b>Interest and other financial expense:</b>			
> interest on current accounts with subsidiaries	38.4	59.8	(21.4)
> charges on exchange rate and interest rate hedging <sup>(1)</sup>	88.7	122.7	(34.0)
> charges and discounts on bond issues and loans	6.7	6.2	0.5
> other financial expense	1.7	0.6	1.1
<b>Total</b>	<b>135.5</b>	<b>189.3</b>	<b>(53.8)</b>
<b>TOTAL</b>	<b>601.0</b>	<b>702.8</b>	<b>(101.8)</b>

(1) Excluding exchange rate differences.

At December 31, 2005, financial expense came to €601.0 million, a decrease of €101.8 million from December 31, 2004, which is essentially the result of a more limited use of bank borrowing, leading to a decline in related interest expense and other charges, both on long-term and short-term debt (€57.0 million). During the year, there was also a decline in financial expense on current accounts with subsidiaries (€21.4 million) and costs on hedging exchange rate and interest rate risk (€34.0 million).



### Foreign exchange gains/(losses) – €3.9 million

Millions of euro			
	2005	2004	2005-2004
Foreign exchange gains:			
> realized	96.3	147.9	(51.7)
> unrealized	3.8	39.2	(35.3)
<b>Total</b>	<b>100.1</b>	<b>187.1</b>	<b>(87.0)</b>
Foreign exchange losses:			
> realized	(97.8)	(148.2)	50.4
> unrealized	(6.2)	(38.3)	32.1
<b>Total</b>	<b>(104.0)</b>	<b>(186.5)</b>	<b>82.5</b>
<b>TOTAL</b>	<b>(3.9)</b>	<b>0.6</b>	<b>(4.5)</b>

Net “foreign exchange losses” came to €3.9 million, a change of €4.5 million from December 31, 2004. The decline in income on hedges of exchange rate risk, as well as the corresponding charges, is primarily connected with developments in the systematic hedging carried out by Enel SpA on behalf of the other Group companies using derivative instruments. The near total offset between these types of gains and losses is representative of the essential absence of risk to Enel SpA.

### Value adjustments to financial assets – €168.2 million

Value adjustments to equity investments are related to:

- > charges resulting from losses recorded in 2005 by Enel Investment Holding (€171.7 million) and Enel New.Hydro (€1.6 million);
- > the €5.1 million writeback of the investment in Echelon, which was sold in December to Enel Investment Holding BV.

The reasons for these value adjustments are discussed above in the section concerning non-current financial assets.

## Extraordinary income and expense

### Extraordinary income – €1,492.5 million

This item includes the following:

- > €1,487.3 million for the gain realized following the sale of the 43.86% stake in Terna, which took place in March and September 2005;
- > €0.7 million for the gain resulting from the sale of a 20% stake in Idrosicilia to Compagnie Générale des Eaux;
- > €4.5 million of various prior-year items, €3.1 million of which related to income-tax adjustments for the previous year.

### Extraordinary expense – €22.9 million

This includes the following:

- > €6.9 million in charges incurred by Enel for the sale of Terna shares, including the provision for bonus shares;
- > € 11.3 million for early retirement incentives for employees;
- > €4.7 million of various prior-year items and capital losses, €2.4 million of which related to the capital loss recorded with the sale of the investment in Enel.Hydro.

## Income taxes

### Income taxes – €16.0 million

Millions of euro

	2005	2004	2005-2004
Current taxes:			
> IRES	(276.7)	(80.7)	(196.0)
> IRAP	-	28.6	(28.6)
<b>Total current taxes</b>	<b>(276.7)</b>	<b>(52.1)</b>	<b>(224.6)</b>
Deferred tax expense	33.1	(401.8)	434.9
Deferred tax income	227.6	203.9	23.7
<b>Total deferred taxes</b>	<b>260.7</b>	<b>(197.9)</b>	<b>458.6</b>
<b>TOTAL</b>	<b>(16.0)</b>	<b>(250.0)</b>	<b>234.0</b>

Income taxes show a receipt of €16.0 million, reflecting tax benefits for current income tax of €276.7 million, partly offset by a charge for deferred tax items of €260.7 million. Net revenues for the purposes of the Italian regional business tax (IRAP) were negative.

The table below shows a reconciliation of these income taxes:

Millions of euro	IRES	IRAP	Total
Income before taxes	2,698.9		
Operating income <sup>(1)</sup>		5.00	
Net changes in the IRAP tax base		(24.0)	
IRAP tax base		(19.0)	
Theoretical tax liability	890.7	-	890.7
Tax decreases:			
> gains on exempt equity investments	(491.0)		(491.0)
> dividends on equity investments	(511.1)		(511.1)
> taxes from previous years	(1.0)		(1.0)
> capital losses as per transitional rules	(5.3)		(5.3)
> writedowns from previous years	(232.9)		(232.9)
> uses of provisions	(26.0)		(26.0)
> other	(1.4)		(1.4)
Tax increases:			
> writedowns for the period	57.2		57.2
> other non-deductible costs	2.6		2.6
> allocations to provisions	30.9		30.9
> other	10.8		10.8
Total current income taxes	(276.7)	-	(276.7)
Total deferred tax items	260.7		260.7
<b>TOTAL INCOME TAXES</b>	<b>(16.0)</b>	<b>-</b>	<b>(16.0)</b>

(1) Operating Income net of personnel costs and provisions, plus financial income and expense.

## Related parties

As required by the *Commissione Nazionale per le Società e la Borsa* (Consob, the Italian companies and stock exchange commission), transactions with related parties are illustrated in the related section of the Report on operations.

## Compensation paid to Directors and Statutory Auditors

Compensation paid to members of the Board of Directors and the Board of Auditors of Enel SpA are summarized in the table below. This statement has been prepared in relation to the terms of their respective offices and on an accruals basis.

Last name	First name	Position held	Period in which the position was held	End of term	Fees for position	Non-monetary benefits	Bonuses and other incentives	Other remuneration	Total
<b>Former Directors</b>									
Scaroni	Paolo	CEO & GM	1/2005-5/2005	approv. 2004 AR	294,507.19	-	3,187,024.91 <sup>(1)</sup>	5,997,675.71 <sup>(2)</sup>	9,479,207.81
Miccio	Mauro	Director	1/2005-5/2005	approv. 2004 AR	47,404.21	-	-	-	47,404.21
Morganti	Franco	Director	1/2005-5/2005	approv. 2004 AR	46,630.90	-	-	28,506.84 <sup>(3)</sup>	75,137.74
<b>Current Directors</b>									
Gnudi	Piero	Chairman	1/2005-12/2005	approv. 2007 AR	700,755.14	11,050.68 <sup>(4)</sup>	585,998.30 <sup>(5)</sup>	2,640,000.00 <sup>(6)</sup>	3,937,804.12
Conti	Fulvio	CEO & GM	5/2005-12/2005	approv. 2007 AR	350,000.00	-	350,000.00 <sup>(7)</sup>	982,959.61 <sup>(8)</sup>	1,682,959.61
Ballio	Giulio	Director	5/2005-12/2005	approv. 2007 AR	63,583.10	-	-	-	63,583.10
Fantozzi	Augusto	Director	5/2005-12/2005	approv. 2007 AR	62,833.10	-	-	-	62,833.10
Luciano	Alessandro	Director	5/2005-12/2005	approv. 2007 AR	62,833.10	-	-	-	62,833.10
Napolitano	Fernando	Director	1/2005-12/2005	approv. 2007 AR	110,479.99	-	-	-	110,479.99
Taranto	Francesco	Director	1/2005-12/2005	approv. 2007 AR	117,029.40	-	-	18,273.97 <sup>(9)</sup>	135,303.37
Tosi	Gianfranco	Director	1/2005-12/2005	approv. 2007 AR	109,963.53	-	-	-	109,963.53
Valsecchi	Francesco	Director	5/2005-12/2005	approv. 2007 AR	62,833.10	-	-	-	62,833.10
<b>Total fees to Directors</b>					<b>2,028,852.76</b>	<b>11,050.68</b>	<b>4,123,023.21</b>	<b>9,667,416.13</b>	<b>15,830,342.78</b>
<b>Former Statutory Auditors</b>									
Provasoli	Angelo	Board chairman	1/2005-5/2005 <sup>(*)</sup>	approv. 2006 AR	35,860.80	-	-	-	35,860.80
<b>Current Statutory Auditors</b>									
Pinto	Eugenio	Board chairman	5/2005-12/2005	approv. 2006 AR	49,416.80	-	-	-	49,416.80
Conte	Carlo	Regular auditor	1/2005-12/2005	approv. 2006 AR	75,000.00 <sup>(10)</sup>	-	-	-	75,000.00
Fontana	Franco	Regular auditor	1/2005-12/2005	approv. 2006 AR	74,500.00	-	-	-	74,500.00
<b>Total fees to Statutory Auditors</b>					<b>234,777.60</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234,777.60</b>
<b>GRAND TOTAL</b>					<b>2,263,630.36</b>	<b>11,050.68</b>	<b>4,123,023.21</b>	<b>9,667,416.13</b>	<b>16,065,120.38</b>

For all positions held by Piero Gnudi, Paolo Scaroni, and Fulvio Conti within the subsidiaries, the related fees and other emoluments have been waived or repaid to the Parent Company and the corresponding amounts absorbed into the fixed component of remuneration established for their positions within Enel SpA.

- (1) This amount includes the following: i) €700,000.00 for the variable portion of the emolument for 2004, approved and disbursed in 2005; ii) €291,666.66 for the variable portion of the emolument related to 2005, approved and disbursed in 2005, as well; iii) €1,695,358.25 for a bonus entry emolument; iv) €500,000.00 bonus paid for successful definition of the sale of Wind to Weather.
- (2) This amount includes the following: i) €312,410.07 for the fixed portion of the emolument for the position of General Manager for 2005; ii) €600,000.00 for the variable portion of this emolument related to 2004, approved and disbursed in 2005; iii) €250,000.00 for the variable portion of this emolument related to 2005, approved and disbursed in 2005, as well; iv) €322,291.64 for the end-of-term payment; v) €1,872,000.00 for an emolument based on a phantom stock option plan subject to ordinary taxation; and vi) €2,640,974.00 bonus paid in conjunction with the exercise of the stock options awarded for the position of General Manager. The latter is a bonus awarded to all senior management with stock options at time in which their stock options are exercised. The size of this bonus, which is proportionate to the number of options exercised, is related to the portion of dividends distributed by Enel that is related to the disposal of assets.
- (3) Emolument related to the position held (director) until August 11, 2005, in the subsidiary Wind, in the amount of €18,273.97, and other non-executive position held within this company assigned to him as member of the board, in the amount of €10,232.87. The later position was waived by the party as of March 24, 2005.
- (4) Insurance policy.
- (5) This amount includes the following: i) €186,000.00 for the variable portion of the emolument for 2004, approved and disbursed in 2005; ii) €199,998.30 for the variable portion of the emolument related to 2005, approved and disbursed in 2005, as well; iii) €200,000.00 bonus paid for successful sale of Wind to Weather.
- (6) Emolument calculated based on a phantom stock option plan for the three-year term 2002-2005, awarded by the Board of Directors in conjunction with the party's appointment to office and subject to ordinary taxation.
- (7) Variable component of the emolument related to 2005, approved and disbursed in 2005.
- (8) This amount includes the following: i) €431,980.74 for the fixed portion of the emolument for the position of General Manager for 2005; ii) €408,333.31 for the variable portion of this emolument related to 2005, approved during the same year; iii) €142,645.56 for a bonus awarded in conjunction with the exercise of stock options subsequent to May 30, 2005, the date of appointment to the position of Chief Executive Officer and General Manager, and related to stock options that were awarded as head of the Administration, Finance and Control Department of Enel SpA, a position which was held until June 20, 2005. The latter is a bonus awarded to all senior management with stock options at time in which their stock options are exercised. The size of this bonus, which is proportionate to the number of options exercised, is related to the portion of dividends distributed by Enel that is related to the disposal of assets.
- (9) Emolument related to the position held (director) until August 11, 2005, in the subsidiary Wind.
- (10) Emolument paid to the Ministry for the Economy and Finance in the amount of €55,000.00 pursuant to Prime Minister Decree of March 1, 2000, issued by the Department for Public Administration.
- (\*) Resigned effective as of May 26, 2005.





## Spain

Enel is active in the generation, distribution and sale of electricity in Spain through its Viesgo subsidiaries, which have more than 2,300 MW of capacity at their thermal and hydro plants, and through Enel Unión Fenosa Renovables, a group operating primarily in the wind power sector.

In Spain, the Viesgo Generación thermal power plant at Puente Nuevo, near Cordoba, was involved in the QUASAR project: a plan to improve global quality already used at a number of power plants in Italy. QUASAR is a multi-stage project, whose success is partly attributable to its ground-up approach involving all personnel. The key to the project is gathering the largest possible number of ideas to improve the quality of working processes and dialoguing with people in the field. The issues on which efforts have focused range from safety to reducing down time, lowering the frequency of stoppages and training staff.

**Miguel Morales Guerrero** Viesgo Generación Puente Nuevo Power Plant

*“The QUASAR project has helped us create a united working group with the aim of improving safety and quality”*

## REPORTS

### Report of the Board of Auditors to the shareholders of Enel SpA (pursuant to article 153 of Legislative Decree 58/98)

Shareholders,

during the year ended December 31, 2005 we performed the oversight activities envisaged by law. In compliance with the instructions issued by Consob with communication no. DEM/1025564 of April 6, 2005, as amended, we report the following:

- > we monitored compliance with the law and the corporate bylaws;
- > the Directors provided us, on a quarterly basis, with the information on the activity they carried out and on the transactions with the most significant impact on the income statement, balance sheet and financial situation conducted by ENEL SpA (the Company) and its subsidiaries and we report that the actions approved and implemented were in compliance with the law and the bylaws and were not manifestly imprudent, risky, in potential conflict of interest or in contrast with the resolutions of the Shareholders' Meeting or otherwise prejudicial to the integrity of the company's assets. As in previous years, we examined the information provided by the Board of Directors for governance purposes specifying significant transactions as those involving: a) the acquisition and disposal of equity investments associated with strategic agreements; b) disposals of assets with a value of more than €5 million; and c) financial operations with a value of more than €25 million;
- > we did not find any atypical or unusual transactions conducted with third parties, Group companies or related parties. In the Report on operations, the Directors describe the main related-party transactions carried out by the Parent Company, Enel SpA, in the section "Transactions with related parties", to which readers may refer for details on the transactions and their impact on the income statement. The Report on operations also details the procedures adopted to ensure that related-party transactions are carried out in accordance with the principles of procedural and substantive fairness;
- > intercompany transactions between the Company and its subsidiaries and associates mainly regard financial relationships (intercompany loans and current accounts), the provision of services (leasing and rentals, administrative assistance and consulting and IT services) and the exchange of goods. We can affirm with reasonable confidence that these transactions are appropriate and in the interest of the Company;
- > the Company prepared its statutory financial statements for 2005 on the basis of Italian GAAP and the provisions of the Italian Civil Code, as amended by Legislative Decree 6 of January 17, 2003. The principles and criteria adopted in the preparation of the financial statements were the same as those adopted for the 2004 financial year. As described in the Report on operations, as from January 1, 2006 the Company has adopted international accounting standards (IFRS) as envisaged in Regulation 2002/1606/EC and subsequent updates and by Legislative Decree 38/2005. The most important developments during the year include:
  - the disposal of an initial tranche of the equity investment in Terna, equal to 13.86% of the company, for €568 million and the disposal of a second tranche of 29.99% for €1,315 million;
  - during 2005, the Company entered into agreements and completed the disposal of Wind Telecomunicazioni SpA to Weather Investments Srl. The first stage of the transaction involved (i)



- the sale of 62.75% of Wind to a Weather subsidiary for €2,986 million in cash and (ii) the Company's subscription of a Weather capital increase in the amount of €305 million, equal to an investment of 5.2%. In the second stage – carried out at the start of 2006 – the Company sold 6.28% of Wind to a Weather subsidiary for €328 million in cash and transferred 30.97% of Wind, valued at €1,655 million, to Weather in exchange for shares representing 20.9% of Weather;
- as part of the reorganization of its financial investments, the Company acquired the equity investment in Enel Finance International SA from Enel Produzione and Enel Distribuzione for a total of €1,414 million;
  - in July 2005 the Ministry for the Economy and Finance carried out a fourth public offering of equity in the Company involving the sale of 575 million shares to the public and institutional investors;
  - as part of the refinancing of its debt, the Company carried out a public offering of bonds with a total value of €1 billion;
  - the Board of Directors of Enel SpA approved the distribution of an interim dividend for 2005 of €0.19 per share, which was paid in November 2005;
- > as regards the proceedings undertaken by the Milan Public Prosecutor's Office and the State Audit Court, which we have already discussed in previous reports, in its ruling of February 22, 2006 the State Audit Court for Lombardy found against the former directors and managers cited in the suit and awarded Enelpower damages of about €14 million;
- > the Company prepared the 2005 consolidated financial statements for the Enel Group on the basis of international accounting principles (IFRS), with a transition date of January 1, 2004. The effects of the change and other information are detailed in the notes to the financial statements in the section "Transition to International Financial Reporting Standards (IFRS)". The information was audited by the independent auditors KPMG SpA. The latter issued unqualified opinions for all the subsidiaries, also affirming that the financial statements for 2005 are in conformity with the regulations governing the preparation of the financial statements and provide a true and fair view of the performance and financial situation of the companies. Within the scope of their responsibility, the Boards of Auditors of the subsidiaries stated that they conducted their oversight activities in compliance with current legislation and did not report irregularities or note other circumstances requiring mention, expressing their opinion in favor of approval of the financial statements. As regards the 2005 consolidated financial statements of the Enel Group, KPMG SpA submitted an unqualified opinion with no reports of irregularities or other circumstances requiring special mention;
- > we acquired information and monitored, within the scope of our responsibility, the adequacy of the Company's organizational structure. Organizational arrangements, which had already been modified the previous year with a substantial degree of centralization, partly with a view to the structural simplification of the Group, were changed further with the creation of the International Division, which brings together Enel's resources and activities involved in its operations in the generation and distribution of power abroad. The other divisions remained: Domestic Sales, Domestic Networks and Infrastructure and Domestic Generation and Energy Management. The Board of

Auditors feels that the organizational system can currently be considered adequate, even in an environment of evolving operational needs;

- > we monitored compliance with the principles of sound administration and the adequacy of the instructions issued by the Company to the subsidiaries pursuant to Article 114.2 of Legislative Decree 58/98, gathering information from department heads and in meetings with the independent auditors, KPMG SpA, during which we exchanged information relevant to the performance of our functions. We have nothing to report in this regard;
- > we examined and monitored the appropriateness of the administrative and accounting system and its reliability in representing operational events, obtaining information from the department head, examining company documentation and analyzing the findings of the examination performed by KPMG SpA. The Board of Auditors closely followed the launch and initial stage of the "Overhead Project" to transfer the main back office functions performed by the Group companies to the subsidiary Enel Servizi Srl (formerly Enel Ape Srl), with a view to improving their quality and containing costs. During the year, the implementation of the project involved, among other things, the transfer of the administration departments of the Parent Company and its subsidiaries to Enel Servizi Srl;
- > we assessed and monitored the adequacy of the internal control system, conducting periodic meetings with the head of internal control operations, attending the meetings of the Internal Control Committee and examining the associated documentation. In the light of our examination and in the absence of significant problems, the internal control system can be considered adequate to the tasks assigned to it;
- > we held periodic meetings with the representatives of the independent auditors, KPMG SpA, pursuant to Article 150.3 of Legislative Decree 58/98, and no significant information was found that would require mention in this report;
- > we received no complaints pursuant to Article 2408 of the Civil Code. A notice was received from a former employee. The Board of Auditors examined the matter and found no irregularities to report;
- > the Company has adopted the Corporate Governance Code drafted by the Committee for the Corporate Governance of Listed Companies. During the year, the Board of Directors re-examined the assignment of powers within the Company, revising the type and size of transactions subject to approval by the Board in order to comply with the recommendations of the Corporate Governance Code as closely as possible. The Compensation Committee and the Internal Control Committee perform the functions assigned to them by the Corporate Governance Code;
- > the Company has adopted specific rules for managing and processing confidential information and for the external disclosure of price sensitive information;
- > the Company has adopted a specific code of conduct for internal dealing in compliance with the regulations established by Borsa Italiana SpA. As in the previous year, in 2005 the provisions of the code envisaged the following requirements: (i) applicability to about 30 "relevant persons" in the Group in addition to the Directors, the regular members of the Board of Auditors and the General Manager of the Parent Company, (ii) the threshold values for transactions that must be disclosed to

the market were reduced by half from those indicated by Borsa Italiana SpA, (iii) transparency requirements were extended to include transactions involving stock options and (iv) relevant persons are forbidden to carry out transactions in the 30 days prior to the approval of the financial statements and the half-year report, establishing penalties for any violation of these provisions;

- > the Company has adopted a Code of Ethics that expresses the commitments and ethical responsibilities involved in the conduct of business, regulating and harmonizing corporate behavior in accordance with standards of maximum transparency and fairness with respect to all stakeholders;
  - > under the provisions of Section 406 of the Sarbanes-Oxley Act (SOA), in June 2004 the Company adopted a specific code of ethical principles regarding financial matters aimed at preventing illegal conduct. In addition, taking account of Section 302 of the SOA, the Company has also formalized disclosure controls and procedures. Finally, under Section 404 of the SOA, the Company has undertaken a project to provide adequate support to management's assessment of the internal control system;
  - > in July 2005 the Company also amended its governance rules to comply with the provisions of Section 301 of the SOA, designating the Board of Auditors, in line with the practice adopted by other Italian companies affected by the issue, as the Enel SpA body responsible for acting as the Audit Committee provided for in applicable US law. To this end, the Board of Directors, acting in agreement with the Board of Auditors, adopted "Rules for the assignment of audit committee functions to the Board of Auditors", which specify the roles and duties assigned to the Board of Directors in addition to those already assigned to it by Italian legislation. At its meeting of July 27, 2005, the Board of Auditors, in the absence of feasible alternatives, voted to adopt the Audit Committee functions for the sole purpose of compliance with applicable US law;
  - > with regard to the provisions of Legislative Decree 231 of June 8, 2001, since 2002 the Company has adopted a compliance program consistent with the guidelines established by industry associations and with international best practices. The program consists of a "general part" and two separate "special parts" concerning a number of specific kinds of crime. In 2005 work was begun on the preparation of additional "special parts" as well as the revision of the existing general part and special parts;
  - > the independent auditing firm KPMG SpA received additional engagements amounting to €1,600,500.00 (net of VAT), for the following services:
 

- a comfort letter for Global Medium Term Notes	€60,500.00
- a comfort letter for the 4th tranche of Enel shares	€1,500,000.00
- filing of the consolidated half-year financial report in Japan	€40,000.00
  - > in 2005 the Board of Auditors issued five opinions pursuant to Article 2389.3 of the Civil Code;
  - > the Board of Auditors' oversight activity was carried out in 18 meetings and with participation in 21 meetings of the Board of Directors and seven meetings held by the Internal Control Committee.
- During the course of this activity and on the basis of information obtained from KPMG SpA, no omissions, censurable facts, irregularities or other significant developments were found that would

require reporting to the control bodies or mention in this report.

Based on the oversight activity performed and the information exchanged with the independent auditors KPMG SpA, we propose that you approve the financial statements for the year ended December 31, 2005 in conformity with the proposals of the Board of Directors.

Rome, 10 May 2006

The Board of Auditors





**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
Via Ettore Petrolini, 2  
00197 ROMA RM

Telefono 06 809611  
Telefax 06 8077475  
e-mail it-fmauditaly@kpmg.it

**(Translation from the Italian original which remains the definitive version)**

## **Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998**

To the shareholders of  
ENEL S.p.A.

- 1 We have audited the financial statements of ENEL S.p.A. as at and for the year ended 31 December 2005. 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 audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the 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.

Reference should be made to the report dated 10 May 2005 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

- 3 In our opinion, the financial statements of ENEL S.p.A. as at and for the year ended 31 December 2005 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the company.
- 4 As disclosed in the notes to the financial statements, ENEL S.p.A. holds controlling interests in a number of companies and, in accordance with current legislation, has prepared consolidated financial statements. Such statements are presented in addition to its own financial statements in order to furnish adequate information on the financial position and results of both the company and the group. We have audited the consolidated financial statements and these, with our audit report thereon, have been presented and issued separately.

The notes describe the effects on the financial statements which would have arisen had the company stated investments in subsidiary and associated companies using the equity method.

Rome, 21 April 2006

KPMG S.p.A.

(Signed on the original)

Bruno Mastrangelo  
Director

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**Enel**

Società per azioni

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137, Viale Regina Margherita

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Tax I.D. and Companies' Register

of Rome no. 00811720580

R.E.A. of Rome no. 756032

VAT Code no. 00934061003









