

Interim report  
for the half year to 30 June 1999





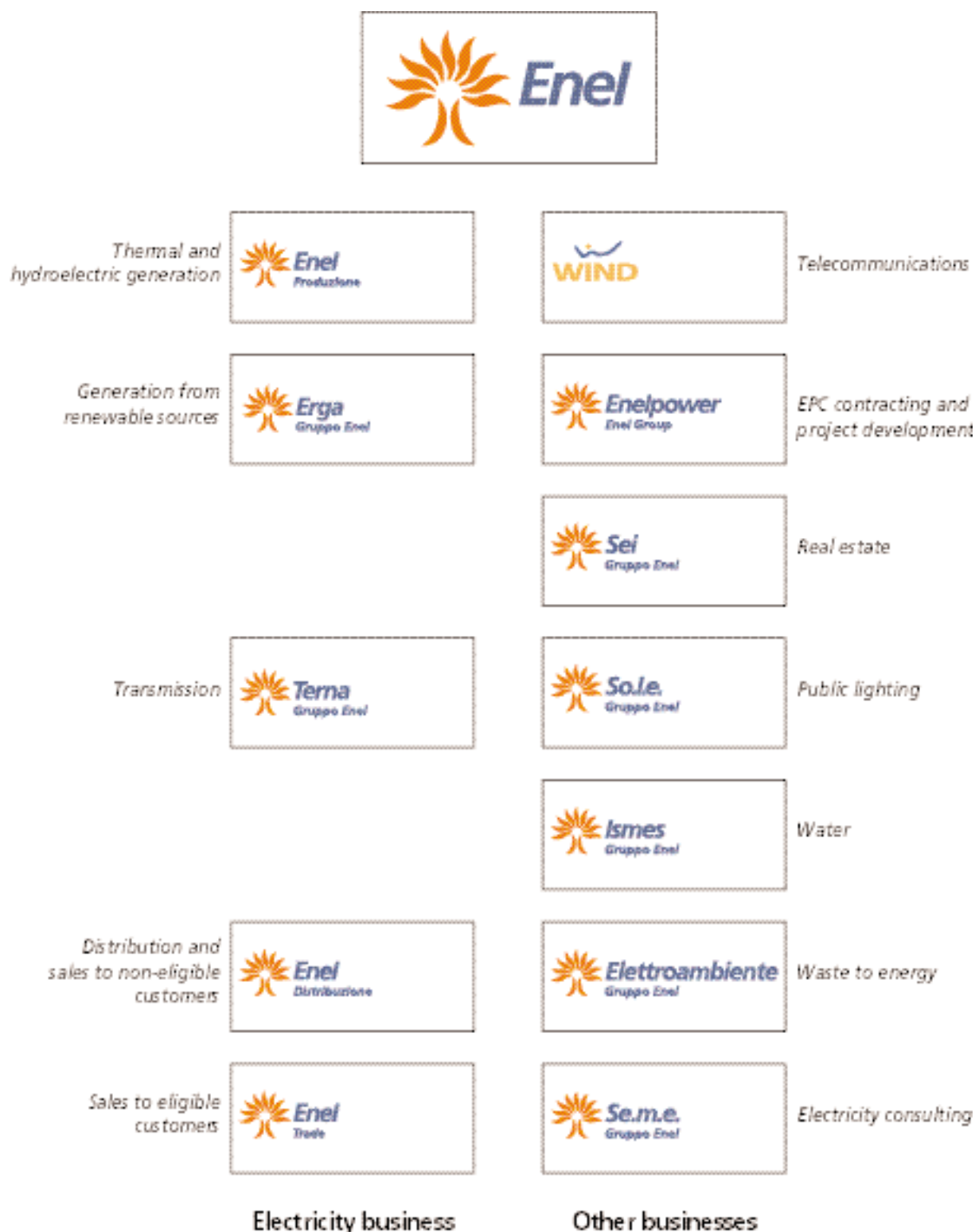
Enel  
Società per Azioni  
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Viale Regina Margherita, 137  
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fully paid-in  
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<sup>(1)</sup> In observance of Consob recommendation no. 8195 dated 30 June 1994 and subsequent amendments, regarding criteria to be adopted in drawing up six-monthly reports, information is first of all presented on the Group performance trends overall and in its various sectors of operation. In keeping with such information, shown below are the financial statements and supplementary notes for the Group, followed by those relating to Enel SpA.

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### **Board of Directors**

chairman

**Chicco Testa**

managing director

**Francesco Tatò**

directors

**Alberto Giovannini**

**Vittorio Grilli**

**Claudio Poggi**

### **Board of Statutory Auditors**

chairman

**Bruno De Leo**

statutory auditors

**Gustavo Minervini**

**Oreste Piemontese**

alternate auditors

**Umberto Aprea**

**Francesco Bilotti**

secretary to the board of directors

**Claudio Sartorelli**

independent auditors

**Arthur Andersen SpA**







	Half-year 1999	Half-year 1998
<b>Statement of Income data (Billion lire)</b>		
Revenues	19,507	20,129
Gross operating income	8,649	8,121
Operating income	5,257	4,859
Net income	2,210	1,770
<b>Balance sheet and other data (Billion lire)</b>		
Gross invested capital	69,489	75,205 <sup>(1)</sup>
Shareholder's equity	36,126	35,880 <sup>(1)</sup>
Debt	17,742	24,547 <sup>(1)</sup>
Net cash provided by operating activities	8,964	7,520
Capital expenditure	2,444	2,419
<b>Economic-financial ratios</b>		
Operating income as a % of revenues	26.9	24.1
Interest coverage (absolute value)	8.9	5.7
Debt to equity (ratio)	0.5	0.7 <sup>(1)</sup>
Headcount at end of period (no.)	81,041	84,938 <sup>(1)</sup>
<b>Operating data</b>		
Gross electricity generated (TWh)	93.1	93.7
Electricity sold (TWh)	113.8	113.0
Customers at period-end (no./000)	29,487	29,343 <sup>(1)</sup>

<sup>(1)</sup> Figures relate to 31 December 1998.

The first six months of 1999 featured a slowdown in the economic growth rate (+0.9% GDP increase in the first quarter) and inflation at 1.4%; industrial production was down 1.6% on the first six months of 1998, due to a falloff in investment goods (-4.3%), and to a lesser extent in intermediate goods (-1.4%), whereas consumer goods were basically stable (+0.3%). Interest rates continued to fall, in line with the 0.5% reduction in the official discount rate, which has remained at 2.5% since April 1999, whereas the prime rate went from 6.38% in December 1998 to the present 5.75%.

During the latter part of the half-year, the energy market registered a marked increase in Brent reference crude oil quotations, which increased from \$9.6 per barrel in December 1998 to \$15.9 per barrel in June 1999 due to the reduction in supply from the OPEC states based on the 23 March 1999 agreements.

The prices of the main by-products, including fuel oil, promptly followed the trends of the crude oil quotations, whilst the alignment as regards natural gas, because of the special indexation mechanisms, was slower and weaker. In particular, low sulphur-content fuel oil in the Mediterranean increased from 66 \$/t in December 1998 to 89 \$/t in June 1999, whilst the high sulphur-content increased from 59 \$/t to 79 \$/t during the same period (Platt's High quotations CIF Italy); a similar trend was recorded with regard to the North European and New York markets. Enel's cost of fuel purchases during the first six months of 1999 was nevertheless generally lower than during the first six months of 1998.

The demand for electricity in Italy during the first half of 1999 amounted to 140.5 billion kWh, plus 0.9% with respect to the same period of the previous year. Electricity consumption reached 131.3 billion kWh (+1.0%), showing considerably less drive than in previous years (+3.1% in 1997 and +2.8% in 1998), that related to the continuing stagnation during the early months of the year in industrial production which began during the second half of 1998. However, the latest economic information appears to indicate that the most difficult phase of the economic downturn has been overcome.

### Electricity in Italy

Million kWh

	Half-year 1999	Half-year 1998	Change	
Gross generation	129,819	129,014	+805	+0.6%
(-) Auxiliary services consumption	6,414	6,344	+70	+1.1%
= Net generation	123,405	122,670	+735	+0.6%
(+) Imported	21,627	21,192	+435	+2.1%
(-) Export sales	228	606	-378	-62.4%
(-) Pumping	4,330	3,971	+359	+9.0%
= Requirement	140,474	139,285	+1,189	+0.9%
(-) Grid losses	9,174	9,285	-111	-1.2%
= Total consumption	131,300	130,000	+1,300	+1.0%

The electricity produced by Enel amounted to 88.1 billion kWh, down by 0.7% with respect to the same period of 1998, primarily due to the growth in generation of the private producers, mostly sold to Enel under the provision CIP 6/92. Enel sales to customers totalled 113.8 billion kWh, up by 0.7%.

## Electricity on Enel's grid

Million kWh

	Half-year 1999	Half-year 1998	Change	
Gross generation	93,119	93,721	-602	-0.6%
(-) Auxiliary services consumption	4,995	4,991	+4	+0.1%
= Net generation	88,124	88,730	-606	-0.7%
Energy from:				
- domestic suppliers <sup>(1)</sup>	21,545	20,674	+871	+4.2%
- foreign suppliers <sup>(1)</sup>	21,627	21,192	+435	+2.1%
(+) Total	43,172	41,866	+1,306	+3.1%
= Total transported through the grid	131,296	130,596	+700	+0.5%
(-) Supplies for grid services	5,155	5,461	-306	-5.6%
(-) Pumping and own consumption	4,609	4,306	+303	+7.0%
(-) Grid losses	7,733	7,827	-94	-1.2%
= Sold to customers	113,799	113,002	+797	+0.7%

<sup>(1)</sup> For grid purchases and services.

Enel Group has considerably improved its performance with respect to the same period of 1998 achieving a net income of lire 2,210 billion, up by 24.9% on the first six months of 1998; the operating income amounted to lire 5,257 billion, showing an improvement of 8.2%. Debt decreased by lire 6,805 billion, from lire 24,547 billion as at 31 December 1998 to lire 17,742 billion as at 30 June 1999, debt to equity ratio decreased to 0.5 from 0.7 as at 31 December 1998.

Overall capital expenditures were essentially in line with those of the first six months of 1998 and are summarised as follows:

Billion lire

	Half-year 1999	Half-year 1998	Change
Generation plant	734	786	-52
Transmission lines and transformer stations	160	260	-100
Distribution network	1,383	1,253	+130
Land, buildings and other assets	167	120	+47
Total	2,444	2,419	+25

As at 30 June 1999 headcount totalled 81,041, down by 4.6% with respect to 31 December 1998, primarily due to early retirement following the implementation of the related incentive programmes.

On 19 February 1999 the Government approved the legislative decree to deregulate the electricity market in accordance with the European Union Directive 96/92; this law came into effect on 1 April 1999.

The new law restructures the Italian electricity market liberalising the activities of generation, import, export, purchase and sale of electricity (within the limits of public service requirements). These, and other, activities can even be carried out by a single party, provided that at least unbundled bookkeeping and management is guaranteed, according to procedures laid down by the Energy Authority. In the case of Enel the decree provides for separate companies to be set up for generation, transmission, distribution and the sale of energy to "qualifying" customers. The latter are parties with an annual consumption, including self-production, of over 30 million kWh, and consortia where members individually have an annual consumption of at least 2 million kWh per year. The overall limit will fall to 20 million kWh in January 2000 and to 9 million kWh in January 2002.

The operation of the electricity transmission network, of electricity dispatching and the management of the national transmission grid are to be operated under a government licence granted to the "System Operator", which is a subsidiary company spun off from Enel, the shares of which are assigned free-of-charge to the State Treasury.

The System Operator will enter into service agreements with the owners of the networks (Enel, Municipalities, and others) based on framework agreements regulating maintenance and for the development of the transmission network and the related interconnections.

The System Operator will have to establish a separate company (the so-called "Single Buyer"), to guarantee for the "non eligible" customers an electricity supply based on continuity, safety and efficiency of service. The Single Buyer, on the basis of annual estimates of electricity demand stipulates purchase contracts for electricity with producers and for electricity sales with distributors, ensuring a single tariff is applied for "non eligible" customers.

During the initial phase, transactions on the free market will take place under direct bilateral contracts between operators, and the relevant exchanges of energy will follow the pass-through dispatch principle.

Starting 1 January 2001 an electricity "pool market" will be created and will be accessible to all producers and eligible customers. From that time dispatch will be based on criteria of economic merit, except for electricity produced by renewable sources and through co-generation, which will have priority.

Starting 1 January 2003 no single company or group may produce more than 50% of energy generated and/or imported to Italy. Due to this restriction, by the same date (which may be postponed by one year) Enel must sell no less than 15,000 MW of its generation capacity. In relation to this imposition, Enel has prepared a disposal plan for the sale of power generation plants which has been included in a Decree of the Prime Minister upon the proposal of the Minister of the Treasury, in agreement with the Minister for Industry on 4 August 1999.

The distributor companies are required to connect to their networks all customers that request it, subject to technical and safety requirements.

The decree permits only one distribution licence to be issued within each municipality. Where there is more than one distributor they will be required to consolidate their activities under one single operator based on agreements between the parties that have to be submitted to the Minister for Industry by 31 March 2000 for approval. The decision is taken by the Minister within 60 days. Where there is no proposal, or in the event the proposal is rejected by the Minister for Industry, the distribution companies owned by the local authorities and serving at least 20% of the utilities can ask Enel to sell them its distribution operations in the municipalities concerned. Municipal utilities with at least 100,000 end customers can apply to the Minister for Industry to adopt the procedure for consensual aggregation in areas adjacent to the municipality where they are based. In the new context, Enel will be responsible for giving strategic direction and co-ordinating the industrial structure and activities carried out by the companies under its control. In the electricity sector the activities carried out by the various companies in the Enel group concern: generation, distribution and sale of electricity to "non eligible" customers, sale to eligible customers, ownership of the transmission network (with relevant development and maintenance).

#### **Regulation of the transmission fee**

By resolution no. 13 of 18 February 1999, the Authority established the transmission fee. The resolution identifies various components of the tariff to be paid for use of the grid: one component is intended to cover power costs, regardless of the distance between the place of generation and that of consumption; other components refer to the fee for use of the system, the so-called auxiliary services such as switching services, voltage regulation, dispatch, measuring systems, capacity reserve. In addition to the fees for power and use of the grid are the tariff components to cover "system charges".

#### **The new tariff system**

On 30 July 1999 the Authority delivered to the Government an informative document containing the proposed details for the overall tariff reform, also including the realignment of tariffs between the various utility categories. The possibility for suppliers to offer different tariff options within the context of a single domestic tariff and the standardisation of distribution costs, will be shown in special documents for consultation regarding which, during the autumn, opinions and suggestions will be collected from consumers, unions, environmentalists and companies.

Only after completion of this process the consumer tariffs will be set for the next four years and the Authority will pass the appropriate decisions in this respect.

As announced by the Authority, its basic principles are to maintain the tariffs in line with the costs of the service rendered, to promote company efficiency and a gradual transition to the new tariff system. The adjustment of tariffs for monopoly activities will use the price cap method which, by setting fixed tariff levels for an appropriate number of years, enables companies to store efficiency increases in excess of the limits envisaged by the price cap for the regulated period.

For activities regarding transmission, distribution and sale to "non eligible" customers, in the year 2000 there is expected to be an initial drop in income of about 9% with respect to 1999.

During the subsequent three years (2001-2003), the price cap method will be applied to these activities: the relative portion of tariff will go down each year by 4% in real terms.

This means that if inflation is 1.5%, there will be a decrease of 2.5% per year.

The electricity generation activity is also starting the transition from monopoly to free market regime. Free customers (eligible customers) are already able to negotiate their purchase prices. For all other customers, at the end of the transition period (2000-2003) the purchase price will be negotiated by the "Single Buyer", the new company to be set up by the "System Operator". In the meantime, the Authority will establish a managed transition price, with an overall drop in generation income of about 18%, diminishing during the period from 2000 to 2003, destined to lose importance with the opening of the market.

The price will take into account both fixed and variable (fuel) costs. The portion of the price intended to cover the latter will be indexed to international prices as has already been the case over the past two years.

The opening of the market to the competition can make it impossible to recover part of the costs previously incurred, justified by the obligation to guarantee the service respecting government directives and instructions. To this effect, companies previously bound to the service will be allocated proportionate compensatory income to enable them to recover the acknowledged costs ("stranded cost"). This compensation will be financed by drawing on energy transportation carried out by the national grid, also destined to cover the "system charges".

The latter comprise the cost of renewable source incentives and the reimbursement of additional costs incurred for the decommissioning of nuclear power stations, together with contributions for the promotion of research and general interest programmes such as energy savings and quality of service.







## Generation

During the first six months of 1999 the process continued to streamline and optimise activities within the ambit of the "MOVE 2000" programme, leading to a 21% reduction in costs to acquire external resources for the company operations.

The workforce employed in the generation division decreased by 753, from 20,154 employees at 31 December 1998 to 19,401 at 30 June 1999, mostly due to staff leaving, at the beginning of 1999, following early retirement by mutual consent.

Net energy generated during the first half of 1999 amounted to 88,124 million kWh, showing a 0.7% decrease over the same period in 1998, broken down as follows by individual source:

Million kWh (net generation)

	Half-year 1999		Half-year 1998		Change	
Thermal	67,900	77.1%	69,390	78.2%	-1,490	-2.1%
Hydroelectric	18,172	20.6%	17,354	19.6%	+818	+4.7%
Geothermal	2,036	2.3%	1,974	2.2%	+62	+3.1%
Wind-power and Photovoltaic	16	-	12	-	+4	+33.3%
<b>Total</b>	<b>88,124</b>	<b>100.0%</b>	<b>88,730</b>	<b>100.0%</b>	<b>-606</b>	<b>-0.7%</b>

The improved hydraulic conditions gave rise to an increase in hydroelectric generation, whilst thermal generation was down by 2.1%.

As regards the use of fuels, the following schedule shows the contribution of individual categories to gross thermal generation:

Million kWh (gross generation)

	Half-year 1999		Half-year 1998		Change	
Fuel oil (S>0.5%)	24,182	33.3%	33,071	44.7%	-8,889	-26.9%
Fuel oil (S<0.5%)	11,384	15.7%	13,611	18.4%	-2,227	-16.4%
<b>Total fuel oil</b>	<b>35,566</b>	<b>49.0%</b>	<b>46,682</b>	<b>63.1%</b>	<b>-11,116</b>	<b>-23.8%</b>
Natural gas	21,623	29.8%	15,145	20.5%	+6,478	+42.8%
Coal	13,069	18.1%	11,206	15.1%	+1,863	+16.6%
Orimulsion	2,047	2.8%	853	1.2%	+1,194	+139.9%
Other fuels	191	0.3%	92	0.1%	+99	+106.9%
<b>Total</b>	<b>72,496</b>	<b>100.0%</b>	<b>73,978</b>	<b>100.0%</b>	<b>-1,482</b>	<b>-2.0%</b>

During the six-month period there was a marked shift of the mix from fuel oil to natural gas, coal and orimulsion.

Overall natural gas purchases were up by 39.5%, from 3.8 billion cu.m to 5.3 billion cu.m mostly due to the share in the SNAM contract which took effect in October 1998.

This supply made it possible to reduce the average cost of gas and obtain an economic advantage over the alternative of using low sulphur-content oil. The use of natural gas was particularly significant at the Montalto di Castro and, to a lesser extent, the Tavazzano, Ostiglia and Sermide power stations.

The increase recorded in the amount of energy generated using coal is due above all to the desulphurisation plants of the Fusina, Brindisi Sud and Sulcis power stations becoming operative during the second half of 1998, enabling among other things a reduction in SO<sub>2</sub> emissions from 3.5 gr./kWh in the first half of 1998 to 2.7 gr./kWh (-23%).

There has also been a significant increase in the amount of energy generated using orimulsion; generation from this source, irrelevant until 1997, has continued the growth trend started in 1998, to reach 2,047 million kWh in the first six months of 1999.

The average unit cost of thermal generation was lire 36.02 per kWh (lire 46.67 per kWh in the first six months of 1998) down by lire 10.65 per kWh, equal to 22.8%, following the drop in fuel prices on the international markets and improvements as regards both the mix of fuels used and average thermal efficiency.

### Capital expenditures and plants

During the first six months of 1999 expenditure in plants totalled lire 734 billion, compared to lire 786 billion during the first half of 1998, as detailed below:

Billion lire

	Half-year 1999	Half-year 1998
Thermal	560	529
Hydroelectric	111	163
Geothermal	62	91
Other	1	3
<b>Total</b>	<b>734</b>	<b>786</b>

Current capital expenditures mostly concern the transformation to combined natural gas cycle of 2 groups of the Porto Corsini and La Spezia power stations, as well as environment-related work on Brindisi Sud, Sulcis, La Spezia and S. Filippo del Mela; substantial benefits are anticipated, both in terms of environmental impact, and because of the potential increase in the use of cheaper fuels such as high sulphur-content fuel oil, orimulsion and, to a lesser extent, coal, which is penalised by the introduction of the carbon tax.

From an environmental standpoint, impact assessment activities continued during the first six months of 1999, obtaining for the Leghorn and Santa Barbara power stations the relevant decree of compatibility from the Ministry of the Environment.

Enel's net efficient generating capacity as at 30 June 1999 amounted to 57,279 MW, as detailed below:

MW	30.06.1999	31.12.1998
Hydroelectric	16,832	16,470
Thermal	39,850	39,850
Geothermal	570	547
Wind-power and Photovoltaic	27	27
<b>Total</b>	<b>57,279</b>	<b>56,894</b>

#### Reduction of generating capacity

The decree for the reorganisation of the electricity sector states that, starting from the year 2003, no single party may produce or import more than 50% of total electricity produced and imported to Italy. For this purpose, by the end of 2002 Enel must dispose at least 15,000 MW of its generating capacity.

This disposal must be carried out in observance of the goals provided in the said law, namely:

- to enable suitable market conditions;
- to ensure necessary attention is given to the existence of industrial plans, to the upkeep of production at sites and to drops in employment levels;
- to keep in mind Enel's development, innovation, research and internationalisation requirements.

The guidelines prepared by the Ministry for Industry state that new producers, in order to compete effectively, must have at their disposal plants with a generating capacity of sufficient size to guarantee:

- generation cost-effectiveness and efficiency;
- autonomy in managing the supply in terms of reserve and plant maintenance programmes;

Moreover, disposals must concern:

- a mix of load and mid-merit plants such as to allow participation at each stage of demand;
- a diversified mix of primary energy sources;
- some plants which can be programmed for conversion in order to promote investments to increase operational efficiency and cost-effectiveness, especially in the "Mezzogiorno" areas;
- adequate geographical articulation, so as to ensure plurality of supply in the various areas of Italy, avoiding the creation of local monopolies.

Based on indications received, Enel has elaborated a plan grouping the plants for prospective transfer into three companies and at the same time guarantees:

- for the electrical generation market, the existence of a plurality of operators and hence an adequate level of competition;
- for each company, the right situation to compete cost-effectively and efficiently.

Breakdown of generation plants identified for the transfer of 15,100 MW is as follows:

- Company A: 7,000 MW approx.;
- Company B: 5,500 MW approx.;
- Company C: 2,600 MW approx..

Generally speaking, despite the specificity deriving from the different dimensions, the plants assigned to the three companies basically have a similar composition to those to be retained by Enel, both as regards the technological features and for the usable fuel mix and geographical distribution.

In connection with the latter the following criteria have been followed:

- to ensure plurality of producers in each geographical area, to avoid potential local monopolies;
- to avoid the sites of the new companies being scattered over the territory more than is necessary, so facilitating their future operation and minimising the geographical mobility of the personnel transferred to the individual companies.

The three companies will be contributed the generation plants to be disposed of the relevant personnel, together with sufficient financial resources, in the form of internal and loaned funds, to optimise the financial structure and keep cost of funding to a minimum.

Buyers shall specify in their acquisition proposals their commitment in relation to:

- combined cycle transformation of all plants shown as convertible, indicating expected timing and investment plans;
- guarantees concerning the employment levels for the personnel involved;
- minimum period during which the electricity generation activity will continue at the sites.

They will also be required to observe all contractual obligations directly or indirectly pertaining to the companies at the time of contribution.

The planned contributions will ensure a situation of effective competition as regards the generation market and the assigned companies will be organised and will be able to support themselves and develop in such a way as to adequately meet Italy's electricity supply requirements, together with Enel and the other Italian operators, now and in the future.

#### **Formation of separate companies**

During the first six months of 1999 activities went ahead to contribute the business segment to Enel Produzione SpA and to Erga SpA (generation of energy from renewable sources), which will group the geothermal, wind-power, photovoltaic plants and hydroelectric plants with less than 10 MW generation capacity.

The hydroelectric plants located in Valle d'Aosta are expected to be contributed to a new company being set up as a joint venture with the Regional Authority, for which the necessary agreements are presently being defined.

## Transmission

During the half year efforts continued in order to achieve more and more efficiency, through the streamlining of the main processes (implementation of the new integrated remote-controlled operation and control system - the SCTI project - and streamlining of plant operation and maintenance activities - RETE '98 project).

The most important aspect of financial management concerns the purchase of energy from domestic and foreign suppliers and the relevant contributions from the Cassa Conguaglio (Equalisation Fund).

The following table summarises purchases made during the first six months of 1999, compared to those carried out during the first six months of 1998:

	Quantity (Million kWh)	Total cost (Billion lire)	Unit Cost (L/kWh)	Quantity (Million kWh)	Total cost (Billion lire)	Unit Cost (L/kWh)
	Half-year 1999			Half-year 1998		
From domestic producers	16,577	1,895	114.33	15,653	1,927	123.09
From foreign producers:						
- long-term contracts	15,059	1,174	77.97	15,817	1,193	75.43
- annual contracts	4,933	178	36.03	3,345	107	32.08
- spot contracts	1,379	40	29.04	1,372	43	31.42
	21,371	1,392	65.13	20,534	1,343	65.43
	<b>37,948</b>	<b>3,287</b>	<b>86.62</b>	<b>36,187</b>	<b>3,270</b>	<b>90.36</b>
Purchases on exchange account		53			58	
<b>Total</b>		<b>3,340</b>			<b>3,328</b>	

Purchases from other domestic producers have gone up, in terms of quantity, by 5.9% (+ 924 million kWh), due to several new plants coming into operation under the "CIP 6" programme; the average unit cost has gone down by about 7% due to the decrease in the price component linked to the cost of fuel ("avoided fuel cost").

Purchases from foreign producers have increased by 4% (+837 million kWh) with a mix in favour of annual contracts, up by 47.5% (+1,588 million kWh). The latter, despite an increase in average unit cost with respect to the first six months of 1998, due to the non repeatability of an advantageous supply which took place in 1998, showed, together with the spot purchases, a slight reduction in the overall average cost from lire 65.43 per kWh to lire 65.13. Contributions from the Equalisation Fund for imported purchases amounted to lire 863 billion (lire 1,077 billion in the first six months of 1998) with a negative differential towards purchase costs of lire 529 billion (lire 266 billion in the first six months of 1998). The repayment mechanism, linked to the dynamics of fuel costs, in fact determined an average contribution of lire 40.38 per kWh against the average cost of lire 65.13.

As regards operating costs, the streamlining of activities under the "RETE '98" project led to 14% savings in costs relating to the acquisition of external resources with respect to the first six months of 1998.

Headcount decreased by 228, from 3,860 at 31 December 1998 to 3,632 at 30 June 1999 (approximately -6%).

### Capital expenditures and plants

Capital expenditure in plants during the first six months of 1999 totalled about lire 160 billion, down by 38% with respect to the same period in 1998, due above all to the policy of streamlining and optimisation of typical investments.

Among the main works currently being carried out, the fibre-optic network (E-net project) has been 85% implemented, and work is continuing on the 400 kV direct current connection between Italy and Greece, which is scheduled for completion by the end of August 2000.

During the first six months, as part of the process to streamline the management of plants, no. 17 stations and about 2,800 Km of lines were transferred to the Distribution Division.

Total plants as at 30 June 1999 are summarised in the following table:

	no.	km
Stations	218	-
Transformers	514	-
Bays	3,239	-
Lines	-	19,316
3-phase lines	750	22,331
Fibre-optic cable	-	5,200

### Formation of separate companies

After the "Bersani Decree" was issued, all necessary activities commenced to set up the "System Operator" to which were contributed sufficient assets and resources to render it operative pending its definitive transfer to the Ministry of the Treasury. The "System Operator" holds the concession for all electricity transmission and dispatch activities, including the unified management of the National Transmission Grid.

In June 1999 the Minister for Industry issued a decree defining the perimeter of the National Transmission Grid including all very high voltage (380kV and 220kV) transmission lines, as well as part of the 150kV and 132kV transmission lines.

Enel will contribute ownership of its own transmission grid to its wholly-owned subsidiary Terna SpA, which will be responsible for operating, developing and maintaining the grid.



### **Distribution and sale**

During the first six months of 1999 projects went ahead to enhance the quality of the service to customers.

In January 1999 the full text of the "Electricity Service Charter" and the general outline of quality indicators were published on Enel's website, in order to stimulate the awareness of all personnel, especially those coming from non-commercial areas, as regards full observance of parameters set in the Charter.

During the half year activities were completed relating to the "basic" national enquiry into the satisfaction of low-voltage customers.

Having identified the subjects of most interest to the customer, 5,600 personnel interviews were carried to as many customers, casually extracted from the central archives, according to whether they belonged to the 'domestic customers', 'small manufacturing businesses' or 'general services-joint ownership' categories and according to the location of the supply (urban, semi-urban, rural). The replies obtained indicated a market view of the quality level of Enel's services equal to 7.34 out of 10.

Further positive results concerned the circulation of both the "new invoice", covering 95.3% of customers, and the "Contowatt" service, used by 30.3% of the entire customer base.

Initiatives directed at "large customers", with a view to providing a more and more flexible and competitive service, include the "account manager" project which was seen favourably by business customers, who appreciated being able to have a single reference point offering assistance both as regards commercial and contractual problems and for all technical aspects of the electricity supply.

The programme went ahead to transfer the meter readings for "large customers" from the system of recording through portable terminals to that carried out mainly through remote readings on a mobile telephone network and using electronic measuring units. Through this system it is possible to enhance the reliability and speed with which invoices are issued and sent out and to reduce costs. With new electronic meters it is also possible to record the load curves. The "large customers" can obtain from the meter itself or from one of the Enel processing centres receiving the data, the electrical dimensions typical of the energy supply.

The "large customers" sector will be followed by a special company, Enel Trade SpA, set up in May to carry out electricity marketing activities and more specifically sales to "eligible customers".

Efforts continued during the six-month period to streamline operations and reduce costs. Headcount dropped by 5.4%, from 51,928 employees as at 31 December 1998 to 49,104 as at 30 June 1999.

## Energy sales

Energy sold during the first six months of 1999 amounted to 113,799 million kWh, up by 0.7% on the same period for the previous year; the increase was concentrated on low-voltage (approx. +4%) and medium-voltage (approx. +2%) sales, whilst there was a falloff in high-voltage sales (approx. -6%).

The change in sales mix, with an increase as regards voltages with highest per unit income (medium and low) and a drop in high-voltage sales where the per unit income is lower, had a positive impact on tariff revenues, which reached lire 13,140 billion showing an increase of 2.4% on the same period for the previous year.

	Billion lire	Million kWh	L/kWh	Billion lire	Million kWh	L/kWh
	Half-year 1999			Half-year 1998		
High-voltage	772	19,101	40.42	839	20,395	41.15
Medium-voltage	3,567	38,364	92.98	3,505	37,733	92.89
Low-voltage	8,491	49,965	169.94	8,146	48,031	169.59
Italian State Railways (traction)	70	2,352	29.63	72	2,395	30.12
Distributors and Export	240	4,017	59.75	264	4,448	59.35
<b>Total</b>	<b>13,140</b>	<b>113,799</b>	<b>115.47</b>	<b>12,826</b>	<b>113,002</b>	<b>113.50</b>

The overall growth in sales, if analysed in reference to the various geographical areas, shows an increase in the Centre-South (+2.8%, +1.8% and +2.9% respectively as regards Central Italy, the South of Italy and the Islands) and a slowdown in the North (-0.6%), against a practically homogeneous increase throughout the Country as regards the number of customers served, as illustrated in the following table:

	Energy sold (Mln kWh)		Change	no. customers/000		Change
	Half-year 1999	Half-year 1998	%	30.06 1999	30.06 1998	%
Northern Italy	61,455	61,813	-0.6	13,202	13,045	1.2
Central Italy	21,243	20,674	+2.8	5,546	5,480	1.2
Southern Italy	17,927	17,605	+1.8	7,094	7,031	0.9
Italian Islands	10,725	10,424	+2.9	3,645	3,602	1.2
Italian State Railways (traction)	2,352	2,395	-1.8	-	-	-
Export	97	91	+6.6	-	-	-
<b>Total</b>	<b>113,799</b>	<b>113,002</b>	<b>+0.7</b>	<b>29,487</b>	<b>29,158</b>	<b>1.1</b>

The following schedule shows sales by sector of consumption.

Million kWh

	Half-year 1999	Half-year 1998	Change	
Industry	54,032	55,017	-985	-1.8%
Tertiary	26,180	24,943	+1,237	+5.0%
Agriculture	1,863	1,750	+113	+6.5%
Household use and general services in buildings	27,707	26,844	+863	+3.2%
Total direct customers	109,782	108,554	+1,228	+1.1%

The industrial sector has felt the effects of the unfavourable trend in the steel (-9.6%), non-ferrous metals (-9.0%), chemical (-7.6%), textiles-clothing (-4.4%) sectors, only partially offset by other users such as food (+3.3%), construction materials and glass (+2.4%), rubber and plastics (+1.7%).

The tertiary sector showed a particularly positive trend (+5.0%), whilst there was a recovery in consumption on the part of households and buildings.

#### Capital expenditures and plants

During the first six months of 1999 the Distribution Division invested lire 1,412 billion, broken down as follows:

Billion lire

	Half-year 1999	Half-year 1998
Distribution networks:		
- High-voltage	210	202
- Medium-voltage	581	474
- Low-voltage	592	577
Total networks	1,383	1,253
Other equipments	29	21
Total	1,412	1,274

The total amount, of which lire 728 billion refers to new plants and lire 684 billion to improving and expanding existing plants, has increased by lire 138 billion (+10.8%) on the same period of 1998.

Of the investments in new plants, lire 178 billion concerned improvement and maintenance of voltage quality, lire 125 billion related to upgrading of the network to the load and lire 392 billion to new connections of utilities; approximately lire 33 billion referred to other operations.

As regards expansions and improvements, lire 116 billion concerned upgrading of the network to the load, lire 16 billion was for safety interventions, lire 142 billion referred to upgrading to technical norm, lire 99 billion concerned utilities connections, lire 219 billion maintenance and enhancement of voltage quality; approximately lire 92 billion was for other operations.

During this period the drop in the unit prices of supplies has continued and the standardisation of components and streamlining of interventions is becoming more and more consolidated, which all works in favour of increased results without increased cost.

The following came into operation during the half year:

High-voltage lines: km 212.

Primary substations and Satellite Stations: 119; MVA 1,492.

Medium-voltage lines: km 1,684.

Secondary substations and transformers: no. 1,403.

Low-voltage lines: km 5,746.

In conclusion, the situation as regards the distribution networks as at 30 June 1999 was as follows:

High-voltage lines: km 35,043 including 556 km of cable.

Primary substations and Satellite Stations: 1,856; MVA 87,018.

Medium-voltage lines: km 326,431 including 110,738 km of cable.

Secondary substations and transformers: no. 428,448.

Satellite Stations: no. 335.

Low-voltage lines: km 693,224 including 545,261 km of cable.

#### **Formation of separate companies**

Apart from Enel Trade SpA, already mentioned above, preparatory activities took place during the first six months of 1999 to contribute the business segment to the new Company Enel Distribuzione SpA. The principal objectives continue to include quality of customer service, reduction of casual interruptions, especially in the southern zones, the establishment of the call centre and new means for obtaining meter reading at the customer's premises. In particular, the call centre will have the function of carrying out commercial services and providing assistance for failure reports. To economically offset the reduction in tariffs ruled by the Authority, special attention will be given to controllable costs and allocation of investments aimed at enhancing the service.

The future Company will also be looking at the actions it will need to take to aggregate the metropolitan areas, for which, as already mentioned, the Bersani Decree envisages a single concessionaire.

In July 1999, the business segment for public lighting activities was contributed to So.l.e. SpA, the object of which is the operation of the public lighting system and related services.





### Telecommunications - WIND

WIND began providing fixed telephony services to the Corporate market in Italy from the end of 1998, whereas the mobile service and all telephony services generally for the Consumer market were launched throughout Italy on 1 March 1999. During the first six months of 1999, the Telecommunications sector in Italy confirmed the development trend of prior years, due to the growth in the mobile telephony sector, also as a result of WIND's arrival on the market, to the impetus given by the deregulation of the fixed telephony sector in 1998, when over 30 new operators entered the market, and to the expansion of Internet, which promises to become a mass market in Italy as has been happening in other countries. As regards the mobile telephony sector, as at 30 June 1999 service penetration went above 42% with more than 24 million customers, compared to 20 million at the end of 1998, and is on the way to overtaking the number of fixed telephone lines installed in Italy.

WIND launched its fixed telephony services for the Corporate sector in December 1998, and for the Consumer sector on 1 March 1999.

On this date, WIND also launched its mobile telephony service for both Corporate and Consumer customers with geographical coverage directed at the 8 main Italian towns and using domestic roaming (on TIM network) as regards the rest of Italy. Furthermore, starting 1 July 1999, the domestic roaming agreement with Omnitel also came into effect. At the same time as the launch of mobile services, WIND became the first in Italy to propose integrated fixed and mobile services as regards both the commercial proposal and how it is produced, such as for example the "Noi WIND" option allowing a limited circle of customers the lowest market price to call between a fixed telephone line and up to two cellular telephones. WIND also proposed to the market the Best Option Plan (BOP): a unique service in Italy, valid for all subscriptions whether fixed or mobile network, which periodically verifies the best telephonic plan for the customer and credits any saving achieved.

These examples constitute a first application of the three basic principles on which the WIND offer is based: convergence of fixed and mobile services (and subsequently also data and Internet), transparency of customer relationships and simplicity. In order to quickly assert its presence on the market, WIND developed a multi-channel domestic distribution structure which provides for its own sales staff, independent agents, trading partners and distributors.

As at 30 June 1999 WIND had approximately 470,000 Corporate and Consumer customers, served through a distributive organisation of 3,000 sales points. During the first six months of the year a second Call Centre opened in Naples, following the one in Rome which had been operating since the end of 1998. In July 1999 WIND acquired ITNet SpA, one of the leading providers of Internet services for the Corporate sector in Italy. ITNet's revenues for the financial period ended 30 June 1999 amounted to lire 8 billion.

During the first six months of 1999, WIND continued to build up its advanced and innovative network structure and as at 30 June 1999 had put into operation approximately 6,000 km of fibre-optic cables of the 8,000 installed by Enel on its long-distance lines and leased to WIND under a fifteen-year contract.

As of 1 July 1999, the contribution to WIND of Enel's telecommunications services structure (STC) came into effect, including the technical infrastructures previously utilised to provide internal company telecommunications.

At the same time as this contribution, WIND and Enel signed a five-year outsourcing contract under which WIND will provide Enel with many of the services previously covered by the STC as well as other new telecommunications services.

WIND closed the first six months of 1999 with a loss of lire 297 billion due to the start-up phase of operations. Revenues amounted to lire 112 billion and operating costs totalled lire 527 billion, of which lire 436 billion for materials and services and lire 91 billion for labour costs, depreciation amounted to lire 47 billion.

Investments during the six-month period totalled lire 328 billion, taking the company's overall amount since its incorporation to lire 683 billion.

Despite this considerable volume of investments, the financial position of the Company is still in credit; liquidity has been mostly invested in time deposits and commercial paper, giving rise to financial income of lire 7 billion.

As at 30 June 1999, WIND employees totalled 3,025, including 908 on part-time basis.

### Engineering and Contracting

The activity relating to Engineering and Contracting, which at present is concentrated in the "Engineering and contracting" organisation, is scheduled to flow into the newly formed Enelpower SpA, which has the strategic objective of shortly becoming a "global player" on the large complex energy systems and EPC (Engineering Procurement Construction) market, taking on roles of "Main contractor" and developing joint projects such as Build Operate Own (BOO) and Build Operate Transfer (BOT).

During the first six months of 1999, activities were based on three main guidelines:

- to continue executing "turnkey" plants in Italy for the customer Enel;
- to carry out internal reorganisation and restructuring;
- to intensify business development activity abroad.

More particularly, 10 "turnkey" plants, for a total value of about lire 700 billion, were put into operation according to schedule. The overall volume of captive business carried out during the period amounted to approximately lire 630 billion, of which lire 540 billion for activities relating to the Generation Division, lire 70 billion to the Transmission Division and lire 20 billion to other activities.

The captive business was defined through specific "internal" contracts for the "turnkey" implementation of the respective plants.

This definition has made possible considerable managerial streamlining of relationships, enabling full acceptance of responsibility for the results to be achieved in terms of required costs, timing and quality.

The internal reorganisation was directed at giving emphasis to and making even easier the procedures for working "to job order", typical of a contractor, setting up for each relevant order a project team, with total responsibility (timing, costs, quality) for the outcome of the order in question.

Restructuring involved the transfer of hydroelectric system engineering activities to the Hydro Complex centred round Ismes SpA.

Commercial development concerned both selective participation in EPC tenders, and BOO/BOT projects, at the same time going ahead with the creation of a commercial network at international level.

Enelpower began operations by stipulating with POWERGEN, leading British energy generation company, a contract for the design and "turnkey" implementation of a combined heat and electricity generation plant with a capacity of approximately 56 MW at Castelford, England.



### **Se.m.e. SpA**

In March 1999 the Company Se.m.e. SpA was set up for the purpose of autonomously managing post-meter and co-generation business.

In particular, the new Company will develop projects in Italy and abroad to provide customers with a complete range of services relating to:

- construction, management and assistance relating to electrical systems downstream of the distribution point and measurement of electricity (post-meter services);
- construction and management of autonomous energy generation plants, with special reference to combined heat and electricity generation plants.

The business of selling post-meter services, pursued in the ambit of Distribution pending the potential autonomous operation of the new Company, made it possible, during the first six months of 1999, to set up 311 contracts mostly with large and medium customers, for a total amount of about lire 8.2 billion (85% construction, 5% maintenance, 3% inspection and testing, the remainder split between training, assistance, equipment rental and low-voltage works).

As regards the development of co-operation agreements with electrical installation companies to extend the range of services to low-voltage customers, on 22 February 1999 an agreement protocol was signed with the following Associations: ANIM-CNA, Confartigianato, Assital, Confapi.

Jointly defined, as part of the operational developments of this protocol, in observance of recent orientations which have evolved at European level with regard to the qualification of installation companies, were the criteria and procedures for the companies to qualify and the requisites of bodies which may be called to carry out eligibility assessments.

### **Real estate and General services**

During the first six months of 1999, the Real estate and General services Structure pursued its mission as regards:

- management and improvement of the civil property portfolio;
- supply of property and plants management services in the large urban areas;
- management of the fleet of vehicles and photocopiers;
- supply of catering services;

for Enel's Divisions and Service Structures.

The past six-month period also saw the penetration of the external market; contracts were signed with WIND and third-party customers for the rental of space, important contracts are presently being formalised for the supply of services to WIND and for the management of vehicles leased to ACEA.

Work also started on the distribution logistics management for the Distribution Division.

The Real estate Area has been reorganised to assign Enel's real estate business segment to Sei SpA, which becomes the management vehicle for its valorisation.

The commitment of the Engineering Area was mostly directed towards the Open Space project which, by making it possible to rationalise the use of space and consequently free up premises for rental and sale to third parties, made available, during the first half year, 35 buildings for a total value of lire 220 billion to be put on the market from the second half of 1999. By completion, scheduled for September 2000, the "Open Space Project" will have enabled the Enel Group to free up premises for a total value of lire 1,000 billion and to save lire 38 billion per year in rental payments.

The Motor Vehicles Logistics Area completed the outsourcing of the car fleet, which led to a 28% reduction in the number of vehicles and an overall cost reduction of 48%.

The Distribution Logistics Area was set up on 1 January 1999 for the purpose of improving efficiency and enhancing the quality of the Distribution Division materials handling service. During the first half year materials transportation was outsourced; the number of actual warehouses was drastically reduced (from 80 to 25), leaving available, together with the premises which will be rented to third parties or divested, approximately 400 employees who will be allocated to other activities within the Group.

#### *Sei SpA*

Revenues for the half year amounted to lire 30 billion, with an operating income of lire 3 billion having deducted additional depreciation of lire 1.4 billion.

There was a negative result of lire 0.8 billion, amounting to lire 1.5 billion after tax.

## Water

Enel has assigned to its wholly-owned subsidiary Ismes SpA the mission of diversifying in the water business. Ismes therefore has the task of designing, implementing and managing water networks.

For this purpose, Enel has decided to assign to Ismes water-related research activities previously carried out by Research (SRI) and water engineering and hydroelectric responsibilities previously headed by the Engineering Structure (SIN). Following these assignments Ismes will be able to develop an integrated presence in the water area exploiting both original and acknowledged geological and hydrogeological skills (territorial engineering, works for the protection and reclamation of the territory during inspection, project and implementation stage) and those relating to Engineering (EPC and BOT) and specialist studies and services (structural engineering, environmental protection and water quality).

All the specialist expertise mentioned above will help Ismes to penetrate the area of actual management through participation in specific companies operating in the integrated water cycle (distribution, purification and drainage).

The competitive advantages of Enel, and hence of Ismes, in the sector are absolutely significant:

- consolidated image and reputation of an important primary public service operator;
- the availability of the important, sometimes unique, skills mentioned above and the opportunity to have them converge in the proposal;
- availability of important water and hydroelectric infrastructures;
- aptitude for relations with principals and institutional reference points;
- the potential possibility to carry out important distribution synergies (from front office to invoicing) and hence to be able to put together a very competitive proposal tariff-wise.

As regards the market, the sector industry today invoices over lire 6,000 billion in management whilst the need to upgrade infrastructures following the gradual application of the so-called Galli Law will probably involve capital expenditures, over the next ten years, of between lire 70,000 billion and lire 80,000 billion. The competitive advantages of Enel and Ismes should make it possible to capture a significant share of both markets and hence to ensure, with regard to the electrical core business, significant and profitable diversification thanks to the gradual implementation of the so-called Galli Law.

This will lead to a significant change in the structure of the competition. The said law in fact envisages:

- a reduction in the present fragmentation of operators (which should come down from several thousand to less than a hundred);
- uniformity of the service provided by the operator thus enabling optimisation of the cost structure;
- unbundling of principal (public) and the management company;
- assertion of the economical nature of the business leading to the assertion of entrepreneurial values of management as regards profitable tariffs.

During the first six months of 1999 Ismes SpA, in the reorganisation phase, recorded a negative result of lire 12 billion, which was covered by the Parent Company.



Expenditure for research and development activities carried out during the first six months of 1999 by the companies of the Enel Group amounted to approximately lire 140 billion, on top of investments in prototype and other plants totalling about lire 10 billion. The main activities developed during the first half of 1999 can be summarised as follows according to the different reference areas of the Parent Company and of the individual subsidiaries involved in these activities.

### **Generation**

Important projects mostly concerned enhancing reliability and safety of thermal generation processes, reduction of operating and maintenance costs, reduction in the pollutant emissions of thermal plants; monitoring and assessment of the environmental impact of plants; safety and management of dams and hydroelectric plants.

The returns of these research projects and specialist intervention activity concerned 15 thermal power stations, 25 hydroelectric and 5 geothermal plants, enabling interventions to upgrade to existing legislation and the achievement of management savings.

### **Transmission**

The main activities concerned works to adapt the dispatch system for the management and control of the transmission grid; the streamlining and innovation of transportation networks. The half-year results include the upgrading of software for evaluating ancillary services and for the Regolatore Nazionale di Tensione (national voltage regulator), as well as a project for an innovative solution to the introduction of sections of underground cable along the lines.

### **Distribution**

Efforts were concentrated on improving the quality of service and research into innovative components; the promotion of end uses of electricity and of services to consumers; environmental problems (electromagnetic fields, re-utilisation of materials no longer in use, etc.); alternative energy sources (photovoltaic supply of buildings and isolated utilities). Research activities and relevant specialist interventions helped to enhance operations, environmental compatibility of plants and customer loyalty through the offer of new services. Also completed was the prototype of equipment based on power electronics for the elimination of voltage gaps at customer premises.

### ***CESI SpA***

During the first six months of 1999, the company, which sets up and manages laboratories and facilities for testing, inspection, and experimental analysis and research, achieved revenues in line with those carried out during the same period in 1998, equal to about lire 33 billion, and a considerable improvement in production costs, which were down from lire 40 billion to lire 34 billion. The loss for the period amounted to approximately lire 3 billion, compared to a loss of lire 9 billion during the first six months of 1998.

### ***Conphoebus SpA***

The company's activity focussed mainly on services in the engineering field and research assignments related to renewable sources and the use of energy for building purposes. The company considerably reduced the loss incurred during the first six months of 1998, from approximately lire 5 billion to lire 0.3 billion. Revenues were up from lire 1 billion to about lire 3 billion, entirely realised within the Enel Group.



The following table summarises the Group results for the first six months of 1999. The Statement of Income, drawn up in conformity to Italian law, has been reclassified according to international standards.

Billion lire

	Half-year 1999	Half-year 1998	Change	
Revenues:				
- Tariff revenues	13,140	12,826	+314	+2.4%
- Equalisation Fund contributions	5,319	6,287	-968	-15.4%
- Other revenues	1,048	1,016	+32	+3.1%
Total revenues	19,507	20,129	-622	-3.1%
Operating costs:				
- Personnel	3,803	4,080	-277	-6.8%
- Thermal fuels	2,625	3,484	-859	-24.6%
- Electricity purchases	3,340	3,328	+12	+0.4%
- General services and rentals	1,038	1,074	-36	-3.4%
- Materials	748	688	+60	+8.7%
- Other costs	237	232	+5	+2.2%
- Capitalised costs	(933)	(878)	(+55)	(+6.2%)
Total operating costs	10,858	12,008	-1,150	-9.6%
Gross operating income	8,649	8,121	+528	+6.5%
Amortisation, depreciation and provisions:				
- Amortisation and depreciation	3,108	2,924	+184	+6.3%
- Provisions and write-downs	284	338	-54	-16.0%
Total amortisation, depreciation and provisions	3,392	3,262	+130	+4.0%
Operating income	5,257	4,859	+398	+8.2%
Financial charges, net	(588)	(847)	(-259)	(-30.6%)
Equity losses	(177)	-	(+177)	-
Income before extraordinary items and income taxes	4,492	4,012	+480	+12.0%
Extraordinary expenses, net	(693)	(276)	(+417)	...
Income before income taxes	3,799	3,736	+63	+1.7%
Income taxes	(1,590)	(1,971)	(-381)	(-19.3%)
Minority interest	1	5	-4	...
Net income for the period	2,210	1,770	+440	+24.9%

## Revenues

Revenues were down overall by lire 622 billion (-3.1%) compared to the first half of 1998 due to a reduction of lire 968 billion in contributions from the Electricity Industry Equalisation Fund, which was only partially offset by an increase of lire 314 billion in tariff revenues and in other revenues of lire 32 billion.

Tariff revenues were up by 2.4% compared to an increase of 0.7% in quantities sold, due to the different mix (increase in low and medium-voltage sales and drop in high-voltage sales). Of the decrease in contributions from the Equalisation Fund, lire 700 billion referred to the component relating to thermal generation following the fall in fuel costs, a phenomenon which also led to reductions in both contributions for energy purchased abroad (tied to the same parameters), and the "avoided fuel cost" component as regards the contributions for energy purchased from domestic producers.

The increase in other revenues is also linked to the start-up of activities carried out for third parties on the part of the Engineering and Contracting, Real estate and General services, Distribution and sale Areas.

## Operating costs

These were down overall by lire 1,150 billion (-9.6%) with respect to the first half of 1998, mostly because of the drop in fuel costs and personnel costs.

In particular, there was a drop of lire 859 billion (-24.6%) in thermal fuel costs during the six months, hence in excess of the decrease in contributions for thermal generation, also due to improvements in efficiency and in the policies for the purchase and management of fuels.

The expense incurred for electricity purchases was generally stable, compared to the 4.9% increase in the quantities acquired. The unit cost of purchases made from foreign producers remained overall more or less constant, whilst that relating to domestic producers showed a decline due to the said "avoided fuel cost" component. It is important to note the growth, compared to the first six months of 1998, of the imbalance between costs relating to energy purchased abroad and the relevant Equalisation Fund contributions, which went from lire 266 billion to lire 529 billion according to the severely penalising mechanism introduced by the Authority's resolution 70/97.

Personnel costs were down by lire 277 billion (-6.8%) in line with the reduction of 7% in average headcount.

## Gross operating income

Gross operating income was up by 528 billion lire (+6.5%) and can be analysed as follows:

Billion lire

- Increase in tariff and other revenues	346
- Decrease in Equalisation Fund contributions, net of changes in the costs of fuels and electricity purchases	(121)
- Decrease in personnel costs	277
- Other changes	26
<b>Total</b>	<b>528</b>



### Operating income

Operating income is up by lire 398 billion with respect to the first half of 1998 (+8.2%) having deducted, from the gross operating income, higher depreciation for lire 184 billion due to plants completed during the 1998 financial year and a decrease of lire 54 billion in provisions and write-downs. Operating income represented 26.9% of total revenues compared to 24.1% in the first half of 1998.

### Net financial charges

These were down by lire 259 billion (-30.6%) due both to the reduction in debt, which went from lire 27,543 billion as at 30 June 1998 to lire 17,742 billion as at 30 June 1999 (lire -9,801 billion), and to the lower interest rates with respect to the first six months of 1998.

### Equity losses

The amount of lire 177 billion refers to the shareholding in WIND Telecomunicazioni SpA and reflects the valuation write down of the shareholding applying the net equity method.

### Extraordinary expenses, net

Extraordinary expenses, net totalled lire 693 billion, showing an increase of lire 417 billion with respect to the same period in 1998. The expenses include costs incurred for early retirement incentives amounting to lire 476 billion, the extraordinary provision of lire 600 billion to the litigation and contingent liabilities reserve to cover potential estimated losses as regards both suspended investment projects and social security issues, and the provision of lire 220 billion for losses relating to the restructuring of derivatives contracts (swap and swap option) to cover the risk of interest rate fluctuation on long-term floating rate loans which were redeemed in advance during the period.

Extraordinary income essentially refers to the recording of deferred tax assets from prior years amounting to lire 581 billion.

### Income before income taxes

Pre-tax income was up by lire 63 billion (+1.7%) due to the following factors:

#### Billion lire

Increase in operating income	398
Decrease in net financial charges	259
Equity losses	(177)
Increase in extraordinary charges, net	(417)
<b>Total</b>	<b>63</b>

### Income taxes

Income tax has gone down by lire 381 billion (-19.3%) in the presence of a 1.7% increase in pre-tax income, mostly due to deferred tax assets, only recorded as of 31 December 1998 following the introduction of the new accounting standard.

The balance is made up as follows:

#### Billion lire

Current taxation	1,635
Deferred tax liabilities	495
Deferred tax assets	(540)
<b>Total</b>	<b>1,590</b>

*Cash flows* during the first six months of 1999 are shown in the following statement of changes in financial position:

Billion lire

	Half-year 1999	Half-year 1998
<b>Cash flows from operating activities</b>		
Net income	2,210	1,770
Depreciation and amortisation	3,108	2,924
Write-down of fixed assets	180	-
Net changes in reserves for risks and charges	1,328	351
Net change to employee severance indemnities reserve	143	(86)
Loss (gain) on disposal of assets, net	20	34
Interest income	(215)	(267)
Interest expense	803	1,114
Income taxes	1,009	1,971
Cash generated from operating income before working capital changes	8,586	7,811
(Increase) Decrease in:		
- Inventories	(53)	104
- Trade receivables	(14)	(104)
- Sundry receivables and payables	219	(225)
- Net receivables from Equalisation Fund (current items)	1,094	961
Cash generated from operations	9,832	8,547
Interest received	145	135
Interest paid	(1,013)	(1,162)
<b>Net cash provided by operating activities</b>	<b>8,964</b>	<b>7,520</b>
<b>Cash flows from investing activities</b>		
Investments in:		
- Intangible assets	(11)	(15)
- Tangible assets	(2,444)	(2,419)
Change in investments	146	(110)
<b>Net cash used in investing activities</b>	<b>(2,309)</b>	<b>(2,544)</b>
<b>Cash flows from financing activities</b>		
Change in long-term debt <sup>(1)</sup>	(6,604)	(1,252)
Change in short-term debt	133	(559)
<b>Net cash used in financing activities</b>	<b>(6,471)</b>	<b>(1,811)</b>
Change in minority interest	(1)	(12)
<b>Net cash flows for the period</b>	<b>183</b>	<b>3,153</b>
Cash and cash equivalents at the beginning of period	2,854	387
Cash and cash equivalents at the end of period	3,037	3,540

<sup>(1)</sup> Net of own bonds and deferred interest on the zero-coupon bond.

### Cash flows from operating activities

During the first six months of 1999, current operations generated cash of lire 8,964 billion, showing an increase of lire 1,444 billion on the same period for 1998; operating activities before the change to net working capital contributed lire 775 billion (+10.0%) towards this improvement. The increase in recovery of receivables from the Equalisation Fund (current items) amounting to lire 133 billion, the increase in advance payments received for connection cost contributions amounting to about lire 100 billion and the increase in payables due to affiliates outside the consolidation area totalling lire 130 billion represent the main other phenomena.

### Cash flows from investing activities

Capital expenditures for the six-month period amounted to lire 2,444 billion, which was basically in line with those carried out in the same period of 1998; net cash taken up by investment activities came to lire 2,309 billion, compared to lire 2,544 billion for the first six months of 1998 when the WIND capital increase of lire 300 billion had been paid up.

### Cash flows from financing activities

The high amount of cash generated by operations during the half year, net of that absorbed by investing activities, made it possible to considerably reduce long-term debt, which went down from lire 26,666 billion as at 31 December 1998 to lire 20,062 billion as at 30 June 1999 (lire -6,604 billion). This change was derived from repayments of lire 6,729 billion, new loans for lire 62 billion and the change in own bonds held in portfolio amounting to lire 63 billion.

Repayments were made due partly to the natural expiration of loans and partly to advance redemption, following regular analysis and negotiation activities aiming to eliminate outstanding borrowings which become less advantageous.

### Net cash flows for the period

The balance of the flows outlined above amounted to lire 183 billion, showing an increase in cash and cash equivalents, represented by bank and postal deposits, cash in hand, and by time deposits in Italian lire.

The *debt* as at 30 June 1999 and the changes with respect to 31 December 1998 are shown in the following table:

Billion lire

	30.06.1999	31.12.1998	Change
Long-term debt:			
- Bonds	11,771	16,951	-5,180
- Long-term loans	8,456	9,943	-1,487
- Bonds in portfolio and deferred interest on zero-coupon bond	(165)	(228)	+63
Total	20,062	26,666	-6,604
Short-term debt	877	744	+133
Total	20,939	27,410	-6,471
Cash and cash equivalents	(3,037)	(2,854)	-183
Marketable securities	(160)	(9)	-151
Debt	17,742	24,547	-6,805

The following table shows the Group balance-sheet data as at 30 June at 1999, reclassified according to management and comparative criteria with balances as at 31 December 1998:

Billion lire

	30.06.1999	31.12.1998	Change
Net fixed assets:			
- Tangible and intangible	75,081	75,808	-727
- Other non current	2,977	3,300	-323
<b>Total</b>	<b>78,058</b>	<b>79,108</b>	<b>-1,050</b>
Net working capital:			
- Trade receivables	5,342	5,328	+14
- Receivable from the Equalisation Fund and other assets	1,298	2,104	-806
- Inventory	1,158	1,105	+53
- Trade payables	(4,804)	(4,957)	+153
- Tax payables	(3,650)	(1,375)	-2,275
- Dividends payable	(1,964)	-	-1,964
- Other liabilities	(5,949)	(6,108)	+159
<b>Total</b>	<b>(8,569)</b>	<b>(3,903)</b>	<b>-4,666</b>
<b>Gross invested capital</b>	<b>69,489</b>	<b>75,205</b>	<b>-5,716</b>
Sundry reserves	(15,609)	(14,765)	-844
<b>Net invested capital</b>	<b>53,880</b>	<b>60,440</b>	<b>-6,560</b>
Shareholder's equity	36,126	35,880	+246
Minority interest	12	13	-1
Debt	17,742	24,547	-6,805
<b>Total</b>	<b>53,880</b>	<b>60,440</b>	<b>-6,560</b>

*Net fixed assets* show a decrease of lire 1,050 billion, mainly due to the surplus of depreciation with respect to capital expenditure for the period.

*Net working capital* is down by lire 4,666 billion, mainly due to the effects of the following factors peculiar to the interim period:

- dividend payable of lire 1,964 billion, which was distributed on 1 July 1999;
- the reduction of the outstanding amount due from the Equalisation Fund by lire 1,094 billion;
- the estimated current taxes on income for the six-month period amounting to lire 1,635 billion and the increase of lire 660 billion in VAT payable compared to the balance due at year-end.

*Shareholder's equity* increased by lire 246 billion, being the difference between the net income for the period amounting to lire 2,210 billion and the dividend of lire 1,964 billion.

*Debt* fell by lire 6,805 billion, reducing the debt to equity ratio from 0.68 as at 31 December 1998 to 0.49 as at 30 June 1999.

*Net invested capital*, which amounted to lire 53,880 billion as at 30 June 1999, is 67% covered by shareholder's equity and 33% by debt; as at 31 December 1998 the respective ratios were 59% and 41%.



## Significant events subsequent to 30 June 1999 and outlook

### Contribution of business segments to the new companies

The capital increase of WIND, resolved by the Shareholder's Meeting on 25 March 1999 for lire 1,152 billion, of which lire 587 billion to be subscribed by Enel through the assignment of the Enel business segment "Telecommunications Services", became fully effective on 1 July 1999.

On 1 August 1999 formalities were completed for the contribution of the business segment for the public lighting system to So.I.e. SpA for a net assets value of lire 9 billion.

Lastly, on 2 August 1999 the contribution of the business segment to Gestore della Rete di Trasmissione Nazionale SpA (the System Operator) came into full effect, for a net assets value equal to lire 50 billion.

As regards the business segments still to be contributed, the various appraisals are scheduled to be concluded by the end of August and during the second half of September the individual deeds of contribution will be formalised, with effect from 30 September 1999, in full observance of the provisions of the "Bersani Decree".

During the half year, within the context of the operations referred to above, the following companies were set up:

Company name	Activity
Gestore della Rete di Trasmissione Nazionale SpA	To carry out electricity transmission and dispatch activities; the stock will be assigned free-of-charge to the Ministry of the Treasury.
So.g.i.n. SpA Società Gestione Impianti Nucleari per azioni	Activities connected with decommissioning of nuclear power stations no longer in use and closure of the fuel cycle; the stock will be assigned to the Ministry of the Treasury.
Terna SpA Trasmissione Elettricità Rete Nazionale	Ownership of the transmission grid.
Erga Energie rinnovabili geotermiche ed alternative SpA	Energy generation activities from renewable sources.
Enel Distribuzione SpA	Activities relating to electricity distribution and sale to "non eligible" customers.
Enel Trade SpA	Activities relating to the sale of electricity to eligible customers.

### Other events

- The Board of Directors of Enel SpA has proposed to the Shareholder's meeting, convened on 3 September 1999, to transfer to share capital the "reserve fund for repayments made by the Ministry of the Treasury under finance bills" amounting to lire 1,922 billion. The Shareholder's meeting is asked to resolve on the proposals.
- On 14 July Enel signed a memorandum of intent with AMPS, the Municipality of Parma local public utilities services company, to assess a potential integration of electricity distribution activities, which could be extended to other local public services also in consideration of the forthcoming liberalisation of the sector.
- On 23 July 1999 the ordinary Shareholder's meeting of Enel SpA resolved to request admission for the Company's ordinary shares to listing on the Telematic Stock Market managed and organised by Borsa Italiana SpA and the New York Stock Exchange. Already with DPCM (Decree of the President of the Council of Ministers) dated 10 May 1995 procedures had been set for the sale, on the part of the Ministry of the Treasury, of ordinary Enel shares held by same, to take place both through a public offer of sale and by direct negotiation, in order to constitute a stable body of shareholders. The process is underway and should be completed by the end of the year with an Initial Public Offering in Italy and abroad for a quota of about 15%.
- As part of its process to internationalise and expand operations, Enelpower set up on 4 August 1999 a co-joint venture in Greece with partners Prometheus Gas and Damco Energy to operate in the electricity sector and develop generation plants in Greece and bordering countries.

### Outlook

The increase in the grid energy input in July, compared to the same month of the previous year (+1.7%), is confirmation of the expected recovery in economic development during the second half of 1999 with a renewed growth in the quantity of energy sold, with respect to the first months of the year, which should settle, on an annual basis, at above 1%. The continuation of actions to streamline corporate processes, enhance efficiency and reduce the cost of resources used and headcount will enable positive operating results to be achieved, guaranteeing for the Group a gross operating income in line with the income performance of the previous year. Capital expenditures should amount to about lire 6,200 billion by the end of the year.







### **Year 2000 activities**

Through its IT services Structure, Enel is implementing a series of actions to minimise risks relating to the so-called "Y2K problem" or "millennium bug".

The following corporate areas are considered:

- supply of the electrical service;
- the telecommunications network;
- managerial IT systems;
- nuclear management.

### **Supply of the electrical service**

The supply of the electrical service is produced by the joint activities of the Generation, Transmission and Distribution Divisions, which represent the three processes of the electrical system. The main types of system which have already been made compliant are the following:

- remote control systems, which enable the remote-controlled operation of primary stations located throughout the territory by means of remote control of high and medium-voltage switches;
- systems to protect the high and medium-voltage distribution networks;
- automatic telephone answering systems;
- Measurement and Control Units for varied-rate tariff customers;
- systems installed at electrical transmission stations, such as devices for local control, protection and operation and recording and monitoring equipment;
- systems for remote operation of high and medium-voltage electrical stations.

During the second half year the following must be upgraded:

- systems for supervision and control of the electrical system, comprising the National Control Centre and the 8 Distribution Centres across the territory;
- process systems installed at electrical power stations: this particularly refers to supervision and control systems, remote operation and remote control systems, auxiliary systems.

### **The telecommunications network**

Enel uses a vast private telecommunications network, created to guarantee increased reliability of the telecommunications services needed to control and operate the electrical grid.

All the main functional areas are compliant: the support network for remote control and operation of electrical systems, the fixed and mobile operational telephone network, the IP Intranet network and the X.25 Data Transmission and Frame Relay network.

During the second half year, activities will be carried out to upgrade the non-compliant private (PABX) exchanges of the managerial telephone network.

### Managerial IT systems

The continuity of the electrical service is not, in the strict sense, dependent on the correct working of managerial IT systems. The importance of these systems for business purposes, however, is typical of a modern company and any malfunctions can be harmful to the company's financial situation and image.

The following systems have been made compliant during the first six months:

- the central systems, including hardware, basic software and environment software of the EDP centres;
- 75% of managerial software applications.

During the second half of the year upgrading of the distribution systems will be completed, including hardware, basic software and environment software of local networks.

The preparation of adequate software kits has been completed during the first six months, whereas the phase of distribution throughout the territory will take place by year-end.

By the end of the year the upgrading of managerial software applications will be finished. Complete testing of the entire system has also commenced, with the participation of users, allocating for this purpose separate partitions of central systems and recreating in these a complete managerial environment.

### Nuclear management

As part of the "Y2K" project, equipment connected with nuclear safety and radio-protection are certified. In view of circumstances (the plants are presently being decommissioned) this is not a critical area, since the systems are only there to record and measure.

Activities for upgrading non-compliant equipment are currently being completed.

### Related parties transactions

The main transactions with affiliated companies outside the consolidation area concern WIND Telecomunicazioni SpA and are summarised below:

Billion lire	Receivables	Payables	Costs	Revenues
	30.06.1999		Half-year 1999	
- Chargebacks carried out in 1998, pending settlement	59	-	-	-
- Rental payments for the fibre-optic network in respect of the first six months of 1999	45	-	-	45
- Due for transfer of VAT balances under Group VAT	-	132	-	-
- Rental of premises and various services rendered	4	-	-	15





## Consolidated Balance Sheet

Billion lire

<b>ASSETS</b>	<b>30.06.1999</b>	<b>31.12.1998</b>	<b>30.06.1998</b>
UNPAID CALLED-UP SHARE CAPITAL	-	-	-
FIXED ASSETS			
Intangibles	102	121	139
Tangibles	74,979	75,687	75,600
Other non-current assets	2,977	3,300	3,348
<b>Total fixed assets</b>	<b>78,058</b>	<b>79,108</b>	<b>79,087</b>
CURRENT ASSETS			
Inventories	1,158	1,105	1,612
Receivables	8,310	9,740	12,717
Short-term investments	979	857	632
Cash and cash equivalents	2,316	2,163	3,371
<b>Total current assets</b>	<b>12,763</b>	<b>13,865</b>	<b>18,332</b>
ACCRUED INCOME AND PREPAID EXPENSES	585	293	643
<b>TOTAL ASSETS</b>	<b>91,406</b>	<b>93,266</b>	<b>98,062</b>

Billion lire

LIABILITIES AND SHAREHOLDER'S EQUITY	30.06.1999	31.12.1998	30.06.1998
SHAREHOLDER'S EQUITY			
Share capital	12,126	12,126	12,126
Legal reserve	354	250	250
Other reserves	12,585	12,585	12,529
Retained earnings	8,851	6,633	6,688
Net income	2,210	4,286	1,770
Shareholder's equity	36,126	35,880	33,363
Minority interest	12	13	13
Total Shareholder's equity and minority interest	36,138	35,893	33,376
RESERVES FOR RISKS AND CHARGES	11,027	10,326	10,634
EMPLOYEE SEVERANCE INDEMNITIES RESERVE	4,582	4,439	4,636
PAYABLES			
Bonds	11,771	16,951	15,414
Bank loans	9,333	10,687	16,141
Trade and other payables	17,366	14,095	16,422
Total payables	38,470	41,733	47,977
ACCRUED PAYABLES AND DEFERRED INCOME	1,189	875	1,439
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	91,406	93,266	98,062
MEMORANDUM ACCOUNTS			
Guarantees given	54	2	346
Other	163,139	174,989	181,513
Total memorandum accounts	163,193	174,991	181,859



## Consolidated Statement of Income

Billion lire

	Half-year 1999	Half-year 1998	1998
<b>REVENUES</b>			
Sales and services	18,501	19,144	37,815
Change to contract work in process	30	5	-3
Capitalised costs and expenses	933	878	1,924
Other income and revenues	976	980	1,976
<b>Total operating revenues</b>	<b>20,440</b>	<b>21,007</b>	<b>41,712</b>
<b>OPERATING COSTS</b>			
Materials and consumables	6,736	7,358	13,853
Services	782	846	1,750
Leases and rentals	256	228	477
Personnel	3,803	4,080	8,025
Depreciation and amortisation	3,108	2,924	6,036
Write-downs	65	54	261
Changes in inventories	-23	142	568
Provisions for risks and charges	125	190	401
Other provisions	94	94	285
Other operating costs	237	232	452
<b>Total operating costs</b>	<b>15,183</b>	<b>16,148</b>	<b>32,108</b>
<b>Operating income</b>	<b>5,257</b>	<b>4,859</b>	<b>9,604</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	215	267	524
Interest and related charges	803	1,114	2,004
<b>Total financial income and expenses</b>	<b>-588</b>	<b>-847</b>	<b>-1,480</b>
<b>EQUITY LOSSES</b>	<b>-177</b>	<b>-</b>	<b>-1</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>			
Income	633	25	822
Expenses	1,326	301	1,143
<b>Total extraordinary items</b>	<b>-693</b>	<b>-276</b>	<b>-321</b>
<b>Income before income taxes</b>	<b>3,799</b>	<b>3,736</b>	<b>7,802</b>
Income taxes	1,590	1,971	3,519
<b>Net income before minority interest</b>	<b>2,209</b>	<b>1,765</b>	<b>4,283</b>
Minority interest	1	5	3
<b>NET INCOME</b>	<b>2,210</b>	<b>1,770</b>	<b>4,286</b>

### Form and content of the Consolidated Financial Statements

The Financial Statements and related Notes on the Enel Group as at 30 June 1999 have been drawn up in conformity to criteria laid down by the CONSOB regulations as set out in resolution no. 8195 of 30 June 1994 and subsequent amendments.

The consolidation area includes the Parent Company Enel SpA and its subsidiaries, being those companies in which, directly or indirectly, it owns more than one half of the voting power, as defined by article 2359 of the Civil Code. The following subsidiaries have been excluded, insofar as inoperative in the six-month period in question: CISE Tecnologie Innovative Srl, So.I.e. SpA, Enel Produzione SpA, Se.m.e. SpA, Gestore della Rete di Trasmissione Nazionale SpA, Enelpower SpA, Erga SpA, Enel Distribuzione SpA, Enel Trade SpA, Terna SpA, So.g.i.n. SpA.

WIND Telecomunicazioni SpA, which is 51% owned, was not included in the consolidation area in view of the limitations on its control laid down in the Bylaws. It has therefore, been accounted for in the consolidated accounts with the equity method. The subsidiary companies are set out in an attached list.

The financial statements of the companies in the area of consolidation have been drawn up in conformity to the accounting criteria laid down by law, interpreted and supplemented by correct accounting principles. As such they are substantially homogeneous and uniform. Where necessary, items recorded solely for tax purposes have been reversed.

For comparison purposes, the Notes compare the balance sheet amounts with those posted on 31 December 1998, and the statement of income with the statement for the same period of the previous financial year.

### Consolidation criteria and procedures

The principal consolidation procedures are as follows:

- the difference between the carrying amount of the parent's investment and its portion of equity in each subsidiary is recognised by making adjustments to specific asset and liability items on the basis of the carrying amount at acquisition or, if successive acquisitions were needed, when the acquisition of the controlling interest took place;
- the minority interests in the net income and net assets of consolidated subsidiaries are identified and set out under a specific item in the statement of income and balance sheet;
- significant unrealised intergroup gains and losses are eliminated, as also the significant intergroup transactions that give rise to receivables and payables, losses and profits;
- intergroup dividends are eliminated from the consolidated statement of income;
- adjustments made to statements of accounts of the single companies in order to eliminate items entered solely for tax purposes and to bring them into line, where necessary, with homogeneous Group accounting principles as well as other consolidation adjustments, take account of deferred tax effects in the Provision for accrued taxes.

### Accounting principles

The accounting principles used to prepare the six months Consolidated Financial Statements ending 30 June 1999 are consistent with those used in the 1998 Consolidated Financial Statements. The most important are indicated below.

#### Intangible assets

Intangibles are carried at cost and indicate the residual amortisable value of the deferred expenses. Amortisation, applied on the straight-line method, is based on the foreseeable useful life of the assets.

#### Tangible assets

Tangibles are carried at purchase or production cost including directly chargeable ancillary costs, monetary revaluations and restatements required by law. The carrying amount of the Parent Company's primary electricity plant includes interest charged up until 31 December 1988 on the financing for new constructions. Tangibles are subject to writing down as regards other than temporary impairment in value but can be reinstated (less depreciation) if the reasons for the writing down no longer apply.

Recurrent maintenance costs are charged to the statement of income as incurred.

Tangibles are systematically depreciated each year using the straight-line method. The rates applied refer to the residual useful life of the assets, as indicated by specific appraisals and taking account of contributions from customers. Assets to be relinquished are depreciated for the period of the franchise, if the latter is inferior to their useful life, as defined above. The annual depreciation rates applicable to the electricity sector are as follows:

	Economic-technical rates
Civil buildings	2.5%
Hydroelectric plant	2.5%
Thermal plant	5.0%
Geothermal plant	8.0%
Alternative energy plant	4.7%
Power lines	2.85%
Transformer stations	5.0%
Medium and low-voltage grids	5.0-5.5%

The application of the foregoing rates to net assets took account of the half-yearly period. The other companies of the Group apply the ordinary depreciation rates permitted for tax purposes, as they are regarded as reflecting the residual useful life of the assets. Depreciation carried by the individual companies solely for tax purposes, as permitted by law, has been eliminated, taking into account the related tax effect.

### Investments

Investments in subsidiaries not as yet operative and thus excluded from the consolidation area and the investments in other companies, have been carried at cost and, where appropriate, written down to reflect any other than temporary impairment in value. Where commitments exist to recapitalise the share capital loss of subsidiary companies, the liability to cover such losses is reflected in reserves for investment losses.

Investments in associate companies or in subsidiaries excluded from the consolidation area due to limitations on their control are carried on the basis of the equity method.

### Inventories

Raw and ancillary materials and consumables are carried at cost as measured by the weighted average method.

Obsolete or slow-moving stock is written down on the basis of their utilization or estimated realisable value.

Contract work in process is stated on the basis of contracted amounts due on the basis of the percentage of completion.

### Receivables and short-term investments

Receivables are carried at their estimated realisable value and classified among "Fixed assets" and "Current assets" depending on their nature and purpose. Non-interest bearing receivables classed as fixed assets are carried at their present value as given by the interest rate in force when they were initially entered.

"Marketable securities" include Enel bonds reported at par value, other bonds and state securities carried at the lower of purchase cost and market value which in the case of listed securities is measured by the average of the stock market prices recorded in the month of June.

### Accruals and deferrals

Accruals and deferrals are calculated on an accrual basis. Issue discounts and other charges on loans are systematically charged to the statement of income over the duration of each loan.

### Reserves for risks and charges

"Reserves for pension schemes and similar obligations" primarily refers to supplementary pension scheme agreement in force before 1 April 1998, when the FONDENEL for employed managers was introduced. Consequently, it only regards retired managers. The provisions also includes indemnities in lieu of notice period entitlement of employed personnel recognised in existing collective contract and union agreements.

The "Reserves for taxes" refer to:

- liabilities for deferred taxes, excluding those referring to reserves subject to taxation upon utilization, which will be accounted for when such reserves become liable to taxation as a consequence of their future distribution or other taxable event.
- deferred tax assets, when there is a reasonable certainty regarding their future realization.

The current income taxes for the period in question are entered among tax payables and calculated by applying the tax rates estimated for the total year on the six-monthly taxable income.

“Other reserves” refer to allocations to cover specific charges or liabilities which are either certain or likely, although their precise amount or the date when they will be incurred was unknown at the end of the period in question. Reserves reflect the best possible estimates made on the basis of the information available.

#### **Employee severance indemnities**

The reserve has been accrued in conformity to law and the labour contracts in force. The reserve represents the liabilities accrued towards all employees as at the closing date of the period in question, net of any legally authorised advances.

#### **Payables**

Payables are carried at their nominal value.

#### **Capital grants**

Grants for specific projects, included among tangibles assets, are recognized once the legal right to them is acquired and their amount is reasonably determinable. They are deferred and charged to the statement of income over the depreciation period to which the assets refer.

#### **Other grants**

They are entered in the statement of income once the legal entitlement to them is acquired and their amount is reasonably determinable.

#### **Revenues**

Tariff revenues are calculated on the basis of consistent criteria relating to consumption as measured by predetermined meter readings for the six-monthly period, even if not yet invoiced by 30 June, and the pricing policy as stated by legal provisions and the Energy Authority in force at the close of the period in question. Revenues from other sales and services are recognised when the service is performed or the transfer of the ownership of the goods takes place.

#### **Translation principles for foreign currency items**

Receivables and payables originally denominated in foreign currency are translated into lire at the exchange rates in force at the pertinent transaction date.

At the close of the period in question items denominated in foreign currency are translated into lire at the rates in force at that moment. Any gains or losses are carried to the statement of income under financial income and expenses taking into account hedging contracts, if any. For reasons of prudence, no account was taken of any net gains resulting from the translation of long-term items.

#### **Interest rate derivatives**

To hedge against interest-rate fluctuations, derivative contracts were stipulated to cover specific operations and overall exposure.

Losses and gains accruing at the end of the period relating to the financial instrument are reported in the statement of income on an accrual basis as financial income or expenses and on a basis consistent with the charges deriving from the underlying liabilities.

**Fixed assets****Intangibles - Lire 102 billion**

The movements of the period in question together with a breakdown of the items are as follows:

Billion lire		Purchases	Amortisation Ordinary	Extraordinary expenses	
	31.12.1998				30.06.1999
Solidarity contribution	43	-	-	(22)	21
Software development	45	2	(13)	-	34
Miscellaneous	2	13	(1)	-	14
Total	90	15	(14)	(22)	69
Construction work in progress and advances	31	2	-	-	33
Total	121	17	(14)	(22)	102

Miscellaneous deferred expenses mainly refer to improvements to third party real estate on long-term leases.

**Tangibles - Lire 74,979 billion**

The value and the movements of the single categories is set out as follows:

Billion lire		Investments	Transfers during the period	Net disposals	Depreciation	Write-downs and other movements	
	31.12.1998						30.06.1999
Property	14,451	124	173	(9)	(315)	(3)	14,421
Plant and machinery	52,733	1,673	1,242	(37)	(2,681)	-	52,930
Industrial and commercial equipment	289	20	2	(3)	(31)	-	277
Other	472	19	1	(7)	(66)	-	419
Construction work in progress	7,742	608	(1,418)	-	-	-	6,932
Total	75,687	2,444	-	(56)	(3,093)	(3)	74,979

The amount of revaluation and restatements included in the gross values to be depreciated as at 30 June 1999 is as follows:

Billion lire	
Property	7,069
Plant and machinery	20,014
Equipment, other assets and plant under construction	175
Total	27,258

The following table compares the percentage at 30 June 1999 of the accumulated depreciation with respect to the gross value of the fixed assets subject to depreciation with that posted on 31 December 1998.

	30.06.1999	31.12.1998
Property	29.8%	28.7%
Plant and machinery	58.0%	57.2%
Industrial and commercial equipment	75.5%	74.1%
Other	80.4%	79.0%
Total assets	54.6%	53.8%

Fixed assets as at 30 June 1999, broken down by use, are classified as follows:

Billion lire	Gross value	Accumulated depreciation	Net value
Generating plant (including industrial building and relevant land)	62,219	28,503	33,716
Power lines and transformer stations	9,811	4,321	5,490
Transmission lines	63,067	42,323	20,744
Other plant, machinery and equipment	7,273	5,162	2,111
Industrial buildings	6,334	1,265	5,069
Civil buildings	966	244	722
Land	195	-	195
Total fixed assets in use	149,865	81,818	68,047
Construction work in progress and advances	6,932	-	6,932
Total	156,797	81,818	74,979

The depreciation provision for the first six months of 1999, in line with those of preceding financial years, was based on the proportional application of economic-technical rates representative of the useful life of the assets.

Hydroelectric plants include assets to be relinquished with a net book value of approximately lire 6,000 billion. Legislative decree no. 79/99 (implementing the directive 96/92/CE on the domestic electricity market) set the date on which the concessions for reservoirs held by Enel will expire, namely the thirtieth year after the enactment of the decree law, the year 2029.

In this year, unless the concession is renewed, all the reservoirs and related regulatory equipment, high-pressure pipes and sluices will be relinquished to the State in regular working conditions.

Such plants are depreciated by taking into account the remaining life of the concession. Decree 79/99 also enabled the Valle d'Aosta region and the autonomous provinces of Trento and Bolzano to fix an alternative expiry date, but such a date has not hitherto been fixed.

The breakdown of *capital expenditure* made in the six-monthly period is as follows:

Billion lire

Generation plant:	
- hydroelectric	111
- thermal	560
- geothermal	62
- alternative energy power stations	1
Total generation plant	734
Power lines and transformer stations	160
Distribution grids	1,383
Property	87
Other assets and equipment	80
<b>Total</b>	<b>2,444</b>

#### Other non-current assets - Lire 2,977 billion

The movements and breakdown are as follows:

Billion lire		Increases	Decreases	
	31.12.1998			30.06.1999
Investments	319	2	(177)	144
Receivables:				
- Electricity Industry Equalisation Fund				
to reimburse nuclear-related charges	1,786	36	(216)	1,606
- Other receivables	1,194	48	(16)	1,226
Total receivables	2,980	84	(232)	2,832
Securities	1	-	-	1
<b>Total</b>	<b>3,300</b>	<b>86</b>	<b>(409)</b>	<b>2,977</b>

The *investments* have increased on account of the setting up of new companies to which the assets of various business segments will be transferred, as set out in the six-monthly report on operations. The decrease is the result of the adjustment of the investment in WIND Telecomunicazioni SpA stated on the equity method as at 30 June 1999.

*Receivables from the Electricity Industry Equalisation Fund to reimburse nuclear-related charges* are carried net of lire 390 billion valuation allowance, previously entered followed resolution no. 58/1998 of 12 June 1998 with which the Energy Authority questioned the criteria for the reimbursement of some items. Enel appealed to the TAR of Lombardy (Regional Administrative Court) against this resolution, which granted some of its claims 18 February 1999. Enel has, subsequently, challenged the resolution before the Consiglio di Stato (the superior tribunal of administrative law) in order to uphold its right to full reimbursement.



The favourable findings, if any, will be recognised when the sentence becomes definitive, as the Authority still has the faculty to appeal against the decision.  
The receivables include lire 884 billion for charges related to the future treatment of nuclear fuel and the decommissioning of nuclear plant.

*Other receivables* refer principally to two items. First, receivables for lire 544 billion due from INPS (Italian Social Security Institute) for reimbursement on social contributions payments made in respect of personnel employed in the South of Italy. Second, receivables in the form of tax advances for lire 501 billion on employment severance payments.

### Current assets

#### Inventories - Lire 1,158 billion

The breakdown of the inventories is as follows:

Billion lire

	30.06.1999	31.12.1998
Fuel	670	657
Materials and equipment	424	414
Contract work in progress	64	34
<b>Total</b>	<b>1,158</b>	<b>1,105</b>

The stocks of replaceable goods (mainly fuels) is substantially unchanged with respect to the previous financial year. The book value of the stock (measured with weighted average cost) at the close of the period is slightly below the current market values of June 1999.

#### Receivables - Lire 8,310 billion

The balance is as follows:

Billion lire

	30.06.1999	31.12.1998
Trade	5,342	5,328
Electricity Industry Equalisation Fund	2,124	3,559
Other	844	853
<b>Total</b>	<b>8,310</b>	<b>9,740</b>

*Trade receivables* are net of the relevant valuation allowance of lire 451 billion (lire 452 billion at the end of 31 December 1998).

*Equalisation Fund receivables* are offset by payables to this fund for lire 2,189 billion. Net receivables as at 31 December 1998 were lire 1,029 billion. In the six-month period in question, past due receivables related to thermal generation charges reimbursable were fully collected.

**Short-term investments - Lire 979 billion**

The balance is made up as follows:

Billion lire

	30.06.1999	31.12.1998
Marketable securities	258	166
Time deposits	721	691
<b>Total</b>	<b>979</b>	<b>857</b>

*Marketable securities* include own "Special series bonds reserved for Enel personnel" for lire 98 billion, (lire 157 billion as at 31 December 1998) and third-party bonds for lire 160 billion acquired during treasury operations.

*Time deposits*, as at year-end 1998, all refer to repurchase agreements denominated in Italian lire with maturities of less than three months.

**Cash and cash equivalents - Lire 2,316 billion**

This item includes bank deposits for lire 2,257 billion (lire 2,085 billion as at 31 December 1998) related to both normal deposits needed for trading activities and money market operations in Italian lire in order to optimise the returns on surplus liquidity. The cash and cash equivalents are all quick assets.

**Accrued income and prepaid expenses - Lire 585 billion**

This item breaks down as follows:

Billion lire

	30.06.1999	31.12.1998
Financial components	129	129
Operating components	456	164
<b>Total</b>	<b>585</b>	<b>293</b>

The changes in the accruals and deferrals are the result of normal mid-year trends. Thus lire 191 billion refers to the 14<sup>th</sup> month's pay and relative costs and lire 75 billion to levies and taxes (ICI, TOSAP, etc.) and insurance premiums.

The following table sets out receivables by maturity:

Billion lire	By 30.06.2000	From 30.06.2000 to 30.06.2004	Beyond 30.06.2004	Total
<b>Long-term receivables</b>				
Electricity Industry Equalisation Fund to reimburse nuclear-related charges	1,606 <sup>(1)</sup>	-	-	1,606
Other receivables	216	596	414	1,226
<b>Total</b>	<b>1,822</b>	<b>596</b>	<b>414</b>	<b>2,832</b>
<b>Current receivables</b>				
Trade receivables	4,872	415	55	5,342
Electricity Industry Equalisation Fund	2,124	-	-	2,124
Other receivables	832	2	10	844
<b>Total</b>	<b>7,828</b>	<b>417</b>	<b>65</b>	<b>8,310</b>

<sup>(1)</sup> The balance is considered collectable within 12 months also in consideration of transfer operations in process.

## Balance Sheet - Liabilities and Shareholder's equity

### Shareholder's equity - Lire 36,126 billion

The movements during the first six months were as follows:

Billion lire	Share capital	Legal reserve	Other reserves	Retained earnings	Net income for the period	Total
As at 31.12.1998	12,126	250	12,585	6,633	4,286	35,880
Distribution of net income of financial year 1998:						
- reserves	-	104	-	2,218	(2,322)	-
- dividends	-	-	-	-	(1,964)	(1,964)
Net income for the period	-	-	-	-	2,210	2,210
As at 30.06.1999	12,126	354	12,585	8,851	2,210	36,126

The *share capital* of the Parent Company at 30 June 1999 comprised 12,126,150,379 ordinary shares with a par value of lire 1,000 each.

*Other reserves* mainly include the restatements reserve recorded in 1993 and 1994 when Enel was transformed from a State owned agency into a public corporation (Law 292/1993) for respectively lire 10,607 billion and a reserve of lire 1,922 billion referring to reimbursements made earlier by the Treasury Ministry in compliance with the finance bill.

The reconciliation between Shareholder's equity and net income as posted in the Financial Statements of the Parent Company along with the respective consolidated data is set out in the following table:

Billion lire	Net income	Shareholder's equity	Net income	Shareholder's equity
	half-year 1999	30.06.1999	1998	31.12.1998
Balances from Financial Statements of Parent Company	2,448	28,170	2,072	27,686
Valuation of WIND with the equity method	(177)	(177)	-	-
Deferred tax assets recognised in the 1998 consolidated statements while in the first six months of 1999 for the Parent Company's statements	(829)	-	829	829
Entries by Parent Company solely for tax purposes (additional depreciation net of tax, etc)	771	8,120	1,393	7,349
Results of consolidating subsidiaries' financial statements	(3)	13	(8)	16
Consolidated financial statements	2,210	36,126	4,286	35,880

### Reserves for risks and charges - Lire 11,027 billion

Variations in the foregoing provisions during the first six months of 1999 are set out as follows:

Billion lire		Provisions	Releases	Other movements	
	31.12.1998				30.06.1999
Pensions and similar	2,015	81	(90)	60	2,066
Income taxes:					
- deferred taxation on present value of social security contribution relief Law no.151/1993	187	-	-	-	187
- deferred tax on consolidation adjustments	5,186	495	-	(1)	5,680
- deferred tax assets	(829)	(1,121)	-	-	(1,950)
Total	4,544	(626)	-	(1)	3,917
Other:					
- reserve for litigation and contingent liabilities	2,187	725	(14)	(60)	2,838
- reserve for treatment and disposal of nuclear fuel	927	25	(15)	-	937
- reserve for decommissioning inactive nuclear plant	621	22	(38)	-	605
- reserve for financial derivatives	-	220	-	-	220
- reserve for early retirement	32	444	(32)	-	444
Total	3,767	1,436	(99)	(60)	5,044
Total reserves for risks and charges	10,326	891	(189)	(1)	11,027

The provisions made to *reserve for pensions and similar* refer to lire 48 billion for the retired managers' pension scheme and lire 33 billion for the indemnities in lieu of notice entitlement of employed personnel.

The *income tax reserves* recognise, in addition to deferred taxes on consolidation adjustments, the deferred tax assets on income elements that are not presently allowed as fiscal deductions entered in the period for lire 540 billion, as well as deferred tax assets from prior years of lire 581 billion. These assets were recognised once the Company had a reasonable certainty that the benefits would be realised.

The *reserves for litigation and contingent liabilities* is designed to cover potential liabilities that could derive from ongoing legal proceedings (mainly related to supply contracts, labour disputes and the operation of plants) and were made on the basis of indications from lawyers internal and external to the Company, without taking account of the results of favourable sentences or those for which an unfavourable decision could not be reasonably quantified. As regards the latter, the reader is referred to the section "Commitments and risks not reported in the Balance Sheet".

In calculating the amount of the reserves, it has been accounted for not only presumed charges that could arise from judicial decisions and other litigation taking place during the period, but also the updating of estimates referring to circumstances arising in earlier financial years. The reserves in question do not include any amount relative to disputes concerning the Vajont disaster as, contrary to the foregoing statements, it is held that the liabilities claimed, while substantial, can be compensated by the Enel SpA's counterclaims for damages as they are both part of the same judicial proceedings and arise from the same event. Against the judicial proceedings in course and various other charges accruing in the six-monthly period a provision of lire 125 billion has been made.

The reserves, moreover, include sums for potential charges referring to possible disposals or other uses of investment initiatives which were halted by management and social securities issues, which amount was estimated on the basis of currently available elements. The provision for the period amounts to lire 600 billion and on account of the nature of the expenses incurred was entered under extraordinary expenses.

The *reserve for financial derivatives* includes charges for the restructuring of derivative contracts, (swap and swap options), stipulated with financial counterparts in order to cover interest rate fluctuations on long-term loans with floating interest rates which have been repaid before their maturity date. The provision covers potentially recoverable costs, calculated at 30 June 1999, on contracts to cover interest rates fluctuations reassigned to other debt items still not covered for these risks.

The *reserve for early retirement* consists of provisions for the estimated extraordinary charges regarding the temporary offer to personnel for a termination of their employment contracts on account of organisational requirements following the measures adopted on 30 April 1999.

#### Employee severance indemnities reserve - Lire 4,582 billion

The movements during the six-month period are as follows:

Billion lire

Balance as at 31 December 1998	4,439
Provisions	238
Releases for payments and other movements	(95)
<b>Balance as at 30 June 1999</b>	<b>4,582</b>

The balance illustrates the sums allocated on behalf of employee severance indemnities in conformity to law, net of advances conceded to employees for "medical expenses" and the "purchase of the first residence".

## Payables - Lire 38,470 billion

The details are as follows:

Billion lire

	30.06.1999	31.12.1998
Bonds	11,771	16,951
Bank loans:		
- long-term loans	8,456	9,943
- short-term loans	877	744
Total bank loans	9,333	10,687
Other payables:		
- trade payables	4,804	4,957
- tax payables	3,650	1,375
- payables to social security institutes	940	1,101
- payables to the Electricity Industry Equalisation Fund	2,189	2,530
- other payables and advances	5,783	4,132
Total other payables	17,366	14,095
<b>Total payables</b>	<b>38,470</b>	<b>41,733</b>

In brief, at 30 June 1999, the *long-term loans amounted* to lire 20,227 billion broken down as follows:

Billion lire

	30.06.1999	31.12.1998
Bonds	11,771	16,951
Long-term loans	8,456	9,943
<b>Total</b>	<b>20,227</b>	<b>26,894</b>

The considerable reduction recorded in the six-monthly period (lire 6,667 billion) is the result of repayments, partly anticipated, for lire 6,729 billion and new loans for lire 62 billion. Bonds include Italian State guaranteed loans for lire 6,835 billion that were issued before the Company became a public corporation.

An analysis of loans by type of interest (fixed or floating) and maturity date is set out as follows:

Billion lire	Maturity date		Current maturity				Long-term maturity		
		30.06.1999	1999	2000	2001	2002	2003	beyond	Total
Bonds:									
- listed fixed-interest	1999-2008	2,936	-	-	-	500	500	1,936	2,936
- listed floating-rate	1999-2001	3,861	1,400	2,081	380	-	-	-	2,461
- unlisted fixed-rate	2005	148	-	-	-	-	-	148	148
- unlisted floating-rate	1999-2019	3,891	-	-	32	43	35	3,781	3,891
Loans:									
- fixed-rate	1999-2006	283	59	51	123	24	9	17	224
- floating-rate	1999-2009	5,465	1,276	703	263	713	1,213	1,297	4,189
European Community funding: <sup>(1)</sup>									
- fixed-rate	1999-2010	3,028	405	690	621	438	254	620	2,623
- floating-rate	2003-2009	615	60	103	103	103	103	143	555
Total		20,227	3,200	3,628	1,522	1,821	2,114	7,942	17,027

<sup>(1)</sup> The Community funding (EIB) include both bonds and loans.

In brief, as at 30 June 1999, 68% of long-term loans had floating rates of interest. However, in order to reduce the amount of loans subject to floating interest, as at 30 June 1999 derivative instruments to hedge against interest rate fluctuations were in place for a par value of lire 9,443 billion, of which lire 6,043 billion for interest-rate swaps and lire 3,400 billion in zero-cost interest rate collars.

Taking account of this hedging, the percentage of loans still exposed to floating interest rates has been estimated at about 41% by appropriately weighting the nominal values of the interest-rate collars.

At 30 June 1999 the fair value of derivative interest-rate instruments is negative for lire 116 billion, net of lire 39 billion for accrued charges and lire 220 billion already allocated to the reserve for financial derivatives.



The following table sets out the various currencies in which the loans are denominated together with the average nominal rate of interest as at 30 June 1999.

Billion lire	Maturity	30.06.1999		Average interest rate
Currency:				
Italian lira	1999-2019	15,995		4.17%
Euro	1999-2010	2,828		6.00%
Deutsche mark	1999-2010	209		7.71%
French franc	1999-2005	161		9.84%
Belgian franc	1999-2008	175		9.07%
Dutch guilder	1999-2010	213		8.42%
Total EMU currencies	1999-2019	19,581		4.61%
U.S. dollar	1999-2008	107		9.09%
British pound	1999-2007	68		9.90%
Swiss franc	1999-2009	199		6.64%
Danish krone	2002	11		10.55%
Yen	1999-2010	261		6.06%
Total non-EMU currencies	1999-2010	646		7.22%
<b>Total</b>	<b>1999-2019</b>	<b>20,227</b>		<b>4.69%</b>

*Tax payables* at the end of June include the provision for taxes calculated on the six-monthly period and a higher VAT liability in line with the trend for the period.

*Other payables and advances* increased when a lire 1,964 billion dividend was recognised. The sum, paid on 1 July 1999, was in part compensated by a reduction in the amounts due to personnel with the release of employment severance indemnities commencing from 1 January 1999 in respect of personnel retired in 1998.

#### Accrued payables and deferred income - Lire 1,189 billion

Billion lire	30.06.1999	31.12.1998
Financial components	401	470
Operating components	788	405
<b>Total</b>	<b>1,189</b>	<b>875</b>

The financial components decreased with the decline in the amount of loans and in the rates of interest.

The operating components account for elements not recognised at the close of the 1998 financial year such as accrued payables for the 13<sup>th</sup> month, water rates and contributions to employee associations.

The following table breaks down payables by maturity.

Billion lire	By 30.06.2000	From 30.06.2000 to 30.06.2004	Beyond 30.06.2004	Total
Bonds	1,943	2,642	7,186	11,771
Bank loans	3,378	5,528	427	9,333
Trade and other payables	16,608	689	69	17,366
<b>Total</b>	<b>21,929</b>	<b>8,859</b>	<b>7,682</b>	<b>38,470</b>

#### Memorandum accounts - Lire 163,193 billion

The memorandum accounts set out the various guarantees, sureties, risks and commitments, as follows:

Billion lire	30.06.1999	31.12.1998
Guarantees given:		
- Sureties to guarantee loans to the associate ELCOGAS SA	40	-
- Sureties to guarantee third parties	14	2
<b>Total</b>	<b>54</b>	<b>2</b>
Other memorandum accounts:		
- Commitments made to suppliers for:		
. electricity purchases	113,723	125,751
. fuel purchases	37,964	41,067
. sundry supplies	7,483	4,302
. contract work	3,405	3,055
- Forward currency purchase commitments	227	251
- Forward currency sales commitments	-	182
- Various guarantees to credit institutions	335	336
- Securities as guarantees from third parties	-	1
- Third-party securities held in custody or deposit	2	44
<b>Total</b>	<b>163,139</b>	<b>174,989</b>
<b>TOTAL</b>	<b>163,193</b>	<b>174,991</b>

Commitments in respect of electricity purchases are as follows:

Billion lire	Domestic producers	Foreign producers	Total
Period:			
1/7/1999-2003	32,402	7,002	39,404
2004-2008	37,681	4,317	41,998
2009-2013	18,500	1,455	19,955
2014 and beyond	12,366	-	12,366
Total	100,949	12,774	113,723

Commitments given to domestic producers concern energy generation benefiting from CIP 6/1992 incentives.

The commitments for fuel purchases are as follows:

Billion lire	Natural gas	Fuel oil	Coal	Logistic services	Total
Period:					
1/7/1999-2003	9,398	803	287	256	10,744
2004-2008	8,187	830	-	-	9,017
2009-2013	8,187	-	-	-	8,187
2014 and beyond	10,016	-	-	-	10,016
Total	35,788	1,633	287	256	37,964

Amounts have been calculated on the basis of the parameters and exchange rates in force at the end of the six-monthly period, since the supplies in question have variable prices and are mostly denominated in foreign currency.

Items referring to sundry supplies and contract work concern purchase commitments for capital expenditure operations and contracts as well as orders for operating requirements.

## Litigations

This section illustrates the principal legal actions before the courts. They mainly concern nuclear, tariff and environmental questions.

### *Nuclear charges*

Enel appealed to the Regional administrative court of Lombardy on 27 July 1998 against resolution 12 June 1998 no. 58 of the Energy Authority. With this resolution the Authority reviewed the criteria previously adopted by the CIP to reimburse Enel, via the electricity tariffs, for the costs accruing from the decision to cease nuclear energy generation. The Authority found that all the reimbursements to Enel were correct, with the exception of certain items for an overall value of lire 390 billion. Enel, in its turn, lodged the foregoing appeal against this cutback and at the same time provided an equivalent amount to bad-debt provisions.

The Regional public administrative court of Lombardy, with sentence no. 612 of 18 February 1999, granted most of the requests made by Enel, recognising Enel's right to receive most of the sum cut back from its reimbursements, amounting to lire 278 billion and ruled that the difference of lire 112 billion be charged to Enel's account.

Enel has appealed to the superior public administrative court (Consiglio di Stato) to obtain full recognition to reimbursement and thus including the residual amount of lire 112 billion. The Authority still has the faculty to place a cross appeal.

### *Legal proceedings on tariffs*

Some companies with very high levels of energy consumption and consumer associations have challenged before the competent regional administrative courts, and also occasionally petitioning the Head of State, either wholly or in part the validity of the measures with which the CIP and the Authority has, over time, defined the electricity tariffs.

The annulment of one of the measures objected to, although able to generate a series of requests for reimbursement by certain companies, would not, in Enel's opinion, compromise Enel's position. Any such an annulment would be followed by a new measure, issued by the Authority, which would, through the tariff system, provide ways to reimburse the charges to which Enel is entitled.

Another issue regarding tariffs refers to the decision of the superior public administrative court, of 14 May 1999, in favour of the Energy Authority that had appealed against the sentence of the public administrative court of Lombardy of 20 December 1997.

(The sentence declared that resolution 70/97 by the Authority was invalid as regards the non recognition of the costs sustained by Enel for the importation of electricity, when such importation was needed in order to honour pre-existing long-term supply contracts). By reversing the decision of the tribunal of Lombardy, which ruled in Enel's favour, the superior court upholds resolution 70/97, including its provisions on electricity imports.

#### *ATEL arbitration*

By virtue of three long-term supply contracts, Enel has been in contractual relations with the Swiss company ATEL since 1986. On account of the devaluation of the lira, subsequent to the stipulation of the contract, following the decision by the Authority to fix limits on reimbursements for long-standing contracts to guarantee supply and the gradual liberalisation of the electricity market in Italy, Enel considers that the relations between the two parties are no longer equitable. For these reasons it has requested that the two parties renegotiate the contractual terms in order to obtain the reciprocally equitable conditions that the contracts themselves set out to obtain.

As ATEL's proposals were held by Enel to be insufficient to redress the imbalance between the parties in the manner prescribed by the contracts, Enel is seeking an arbitral settlement in Geneva in application of the rules of the International Chamber of Commerce of Paris. Enel is principally requesting the rescission of all contracts still in force with ATEL and that ATEL pay the price differences as from 1997 resulting from the new conditions fixed by the arbitration board. Alternatively, Enel is seeking such changes to the contracts as to make them equitable for both parties, together with the ruling that ATEL pay the difference in price from March 1997 on the basis of the new conditions fixed by the arbitration board.

The arbitration is only at a preliminary phase and, in any case, Enel believes that no charges other than those represented by the non-reduction of the existing contractual costs, will occur.

#### *WIND - Deutsche Telekom*

Enel, together with France Télécom S.A. and WIND Telecomunicazioni SpA, has initiated legal action in the Court of Rome to obtain an injunction against Deutsche Telekom AG. The injunction is necessary to safeguard the interests and contractual position of Enel as party to the agreements reached in May 1998, whereby the parties undertook to observe conditions of exclusivity, non-competition and secrecy. Enel retains that Deutsche Telekom violated these obligations by negotiating and stipulating a Business Combination Agreement with WIND's principal competitor Telecom Italia SpA.

On 12 July 1999, the Rome Court recognised that Deutsche Telekom had failed to observe the undertakings in respect of non-competition and exclusivity contained in the agreements to which it was a party.

In the meantime, Enel, in conformity to the arbitration clause in the agreements, has filed an arbitration proceeding to be held in Geneva on the basis of the rules of the International Chamber of Trade of Paris in order to obtain, inter alia, redress for the damage sustained.

*Environmental litigation*

Enel is a defendant in many proceedings regarding the question of electromagnetic fields. For the most part the proceedings are requests to move power lines or remove distribution sub-stations from property, advanced on account of the presumed health hazards of the latter and notwithstanding that such equipment was, in Enel's opinion, installed in full conformity to existing law. Only in a few cases have claims for compensation been advanced for damage to health attributed to the electromagnetic emissions of such equipment or lines.

As of today, very few sentences have been unfavourable to Enel, while no civil action brought against Enel for compensation for impairment to health has been successful. In this regard, however, there was an isolated penal sentence, passed in June 1999 by the Magistrates' Court of Rimini, that accepted the motion advanced by the "aggrieved parties" (which is possible in penal proceedings) and despite the absence of specific proof about the extent of the damage, condemned Enel to pay each of such "aggrieved parties" lire 2 million as "moral and symbolic damages". Enel has appealed against the sentence. In the foregoing proceedings concerning the movement or removal of lines or equipment on the grounds of presumed health hazards represented by electromagnetic fields, Enel, in addition to defending itself in court, has always appealed against the few unfavourable sentences. As a result there are no conclusive judgements unfavourable to Enel. For this reason Enel has not made any provisions on this question.

However, although the proceedings in this area are limited and the number of unfavourable sentences (not conclusive) are even more limited, it cannot be excluded, given the general public's concern for the question, that such proceedings will increase and that the court will interpret events differently. It should, however, be considered that this kind of litigation could be easily overcome if bill no. 4816 at present being examined by Parliament were approved. The bill provides for very significant plans for the remediation of the electricity grid but would also require the Energy Authority to lay down criteria, arrangements and conditions to recover the relative costs.

Some proceedings regarding planning, landscape and environmental issues related to the construction and operation of generation plant and power lines are still pending. The examination of such suits, and also on the basis of legal advice, leads the Company to believe that in general unfavourable sentences would be a remote possibility, although as concerns a limited number of cases unfavourable sentences cannot be ruled out, and whose consequences would entail, in addition to the payment of damages (in those few cases in which damages have been advanced and it is possible to recognise relationships of cause and effect), sustaining charges related to plant modification and their temporary shutdown. These are charges whose entity at the moment cannot be estimated, and cannot, therefore, be included in "provisions for litigation and contingent liabilities". However, such charges as regards modifications to plant can be regarded as improvements to the investments and can, therefore, be covered from future cash flows.

**Foreign currency options**

During the six-monthly period the Company has taken out options contracts to hedge against foreign exchange risks and optimise the management of currencies denominated in US dollars and Swiss francs for the purchase of fuel and electricity outside the EMU area. At 30 June 1999 contracts are in place for a nominal underlying amount of lire 2,413 billion and with a negative fair value of about lire 30 billion, reaching maturity in the second half of the present financial year.

## Statement of Income

### Revenues - Lire 20,440 billion

Details are as follows:

Billion lire

	Half-year 1999	Half-year 1998
Sales and services:		
- tariff revenues	13,140	12,826
- Electricity Industry Equalisation Fund contributions	5,319	6,287
- other revenues	42	31
Total	18,501	19,144
Change in contract work in process	30	5
Capitalised costs and expenses	933	878
Other income and revenues	976	980
Total	20,440	21,007

*Tariff revenues* rose by lire 314 billion. This item, broken down by value and quantity, is as follows:

	Billion lire	Millions of kWh	L/kWh	Billion lire	Millions of kWh	L/kWh
	Half-year 1999			Half-year 1998		
High-voltage	772	19,101	40.42	839	20,395	41.15
Medium-voltage	3,567	38,364	92.98	3,505	37,733	92.89
Low-voltage	8,491	49,965	169.94	8,146	48,031	169.59
Railways for traction	70	2,352	29.63	72	2,395	30.12
Distributors and exports	240	4,017	59.75	264	4,448	59.35
Total	13,140	113,799	115.47	12,826	113,002	113.50

The increase in the average unit revenue is the result of a different sales mix. Sales were more concentrated in low-voltage sales, which rose 4% in the first six months against high-voltage sales that fell 6.3% as industrial production declined.

The *Electricity Industry Equalisation Fund contributions* were made up as follows:

Billion lire

	Half-year 1999	Half-year 1998
Thermal generation	2,780	3,480
Energy purchases and renewable energy generation	2,539	2,807
<b>Total</b>	<b>5,319</b>	<b>6,287</b>

The thermal generation contributions fell by lire 700 billion (-20.1%) in line with the decline in reference fuel prices with respect to the first six months of 1998. On the base of the same parameter, contributions for electricity imports also fell by lire 214 billion. The remaining lire 54 billion reduction was the result of lower contributions for energy purchased from domestic producers also related to the foregoing parameter.

The *capitalised costs and expenses* recognises an increase of lire 55 billion following the increased use of stock. The higher level of stock utilisation was, in its turn, the result of proportionally higher investments in the grid.

*Other income and revenues* mainly include contributions for connection costs and fixed charges on contractual operations, payments for maintenance and repairs, stock disposals, compensation for damage, hire and leasing rentals and the recovery of sundry expenses.

#### Operating costs - Lire 15,183 billion

Operating costs fell 6.0% compared to the same period last year. The incidence of revenues was 74.3% compared to 76.9% in the first six months of 1998.

The main elements are as follows:

Billion lire

	Half-year 1999	Half-year 1998
Materials and consumables		
- fuels	2,638	3,451
- electricity from third parties	3,340	3,328
- materials	758	579
<b>Total</b>	<b>6,736</b>	<b>7,358</b>
Services	782	846
Leases and rentals	256	228
Personnel	3,803	4,080
Depreciation and amortisation	3,108	2,924
Write-downs	65	54
Changes in inventory	-23	142
Provisions for risks and charges	125	190
Other provisions	94	94
Other operating costs	237	232
<b>Total operating costs</b>	<b>15,183</b>	<b>16,148</b>



*Materials and consumables* fell as a result of the decline in fuel prices compared to the same period in 1998. Material costs, considered together with inventory changes, rose lire 60 billion, substantially in line with the material costs for internal construction (about lire 50 billion).

Costs for *services* fell by lire 64 billion mainly as a result of cutbacks and outsourcing rationalisation in the fields of maintenance and repair, general services for buildings, technical and IT services and consultants.

Spending on *leases and rentals* registered an increase of lire 28 billion, mainly as a result of higher rentals following the outsourcing of the vehicle fleet in addition to the rentals due to municipalities for the exploitation of public areas (COSAP).

*Personnel expenses* fell by lire 277 billion (-6.8%), in line with the reduction in the average headcount (-7.2%).

The following table compares the average headcount by category and the situation as at 30 June 1999:

	Average headcount			Headcount at
	Half-year 1999	Half-year 1998	Change	30.06.1999
Managers	864	963	-99	851
Supervisors	5,230	5,404	-174	5,306
White-collar	44,238	47,080	-2,842	44,376
Blue-collar	30,859	34,016	-3,157	30,508
Total	81,191	87,463	-6,272	81,041

*Depreciation and amortisation* increased by lire 184 billion, representing 6.3% in comparison with the relevant areas of 1998 plant operation.

*Provisions and write-downs*, overall, were lire 54 billion less than the same period in 1998 and mainly include the writing down of commercial receivables, allocations for litigation in course and other risks, allocations for the decommissioning of nuclear plant and treating fuel and provisions for the retired managers pension fund.

*Other operating costs* are affected by increased charges for taxes on polluting substances.

**Financial income and expenses - Lire -588 billion**

The balance is made up as follows:

Billion lire

	Half-year 1999	Half-year 1998
Financial income	215	267
Interest and related charges	-803	-1,114
<b>Total</b>	<b>-588</b>	<b>-847</b>

The reduction of lire 259 billion in net financial expenses is the result of the decrease in corporate debt and the decline in interest rates with respect to the first six months of 1998.

**Equity losses - Lire -177 billion**

The item refers to the losses posted by WIND Telecomunicazioni SpA accounted for under the equity method.

**Extraordinary income and expenses - Lire -693 billion**

Extraordinary net expenses increased by lire 417 billion with respect to the first six months of 1998. The negative elements mainly include: charges related to early retirement programmes following reorganisation measures for lire 476 billion; the extraordinary allocation of lire 600 billion to reserves for litigation and contingent liabilities regarding potential risks for the disposal or other use of assets for investment initiatives halted by management and for social security issues; provision for lire 220 billion to reserve for financial derivatives as set out in the notes on liabilities. The income principally refers to the recognition of deferred tax assets from prior years for lire 581 billion, the reasonable certainty of whose recovery was ascertained in the first six months of 1999.

**Income taxes - Lire 1,590 billion**

Income taxes fell by lire 381 billion with respect to the first six months of 1998 mainly as a result of tax assets only recognised from 31 December 1998 following the introduction of a new accounting principle. The balance breaks down as follows:

Billion lire

Current taxes	1,635
Deferred tax liabilities	495
Deferred tax assets	(540)
<b>Total</b>	<b>1,590</b>



Consolidated Balance Sheet and Statement  
of Income expressed in Euro

## Consolidated Balance Sheet expressed in Euro

Millions of Euro

<b>ASSETS</b>	<b>30.06.1999</b>	<b>31.12.1998</b>	<b>30.06.1998</b>
UNPAID CALLED-UP SHARE CAPITAL	-	-	-
FIXED ASSETS			
Intangibles	53	62	72
Tangibles	38,723	39,089	39,044
Other non-current assets	1,537	1,704	1,729
<b>Total fixed assets</b>	<b>40,313</b>	<b>40,855</b>	<b>40,845</b>
CURRENT ASSETS			
Inventories	598	571	833
Receivables	4,292	5,030	6,568
Short-term investments	506	443	326
Cash and cash equivalents	1,196	1,117	1,741
<b>Total current assets</b>	<b>6,592</b>	<b>7,161</b>	<b>9,468</b>
ACCRUED INCOME AND PREPAID EXPENSES	302	151	332
<b>TOTAL ASSETS</b>	<b>47,207</b>	<b>48,167</b>	<b>50,645</b>

Lire/Euro exchange rate = 1,936.27.

Millions of Euro

<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>30.06.1999</b>	<b>31.12.1998</b>	<b>30.06.1998</b>
SHAREHOLDER'S EQUITY			
Share capital	6,263	6,263	6,263
Legal reserve	183	129	129
Other reserves	6,500	6,500	6,471
Retained earnings	4,571	3,424	3,454
Net income	1,141	2,214	914
Shareholder's equity	18,658	18,530	17,231
Minority interest	6	7	7
Total Shareholder's equity and minority interest	18,664	18,537	17,238
RESERVES FOR RISKS AND CHARGES	5,695	5,333	5,492
EMPLOYEE SEVERANCE INDEMNITIES RESERVE	2,366	2,293	2,394
PAYABLES			
Bonds	6,079	8,754	7,961
Bank loans	4,820	5,519	8,336
Trade and other payables	8,969	7,279	8,481
Total payables	19,868	21,552	24,778
ACCRUED PAYABLES AND DEFERRED INCOME	614	452	743
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	47,207	48,167	50,645
MEMORANDUM ACCOUNTS			
Guarantees given	28	1	179
Other	84,254	90,374	93,744
Total memorandum accounts	84,282	90,375	93,923

Lire/Euro exchange rate = 1,936.27.

## Consolidated Statement of Income expressed in Euro

Millions of Euro

	Half-year 1999	Half-year 1998	1998
<b>REVENUES</b>			
Sales and services	9,555	9,887	19,530
Change to contract work in process	15	3	-2
Capitalised costs and expenses	482	453	994
Other income and revenues	504	506	1,021
<b>Total operating revenues</b>	<b>10,556</b>	<b>10,849</b>	<b>21,543</b>
<b>OPERATING COSTS</b>			
Materials and consumables	3,479	3,800	7,154
Services	404	437	904
Leases and rentals	132	118	246
Personnel	1,964	2,107	4,145
Depreciation and amortisation	1,605	1,510	3,117
Write-downs	34	28	135
Changes in inventories	-12	73	293
Provisions for risks and charges	65	98	207
Other provisions	49	49	147
Other operating costs	122	120	234
<b>Total operating costs</b>	<b>7,842</b>	<b>8,340</b>	<b>16,582</b>
<b>Operating income</b>	<b>2,714</b>	<b>2,509</b>	<b>4,961</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	111	138	271
Interest and related charges	415	575	1,036
<b>Total financial income and expenses</b>	<b>-304</b>	<b>-437</b>	<b>-765</b>
<b>EQUITY LOSSES</b>	<b>-91</b>	<b>-</b>	<b>-1</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>			
Income	327	13	425
Expenses	685	155	591
<b>Total extraordinary items</b>	<b>-358</b>	<b>-142</b>	<b>-166</b>
<b>Income before income taxes</b>	<b>1,961</b>	<b>1,930</b>	<b>4,029</b>
<b>Income taxes</b>	<b>821</b>	<b>1,018</b>	<b>1,817</b>
<b>Net income before minority interest</b>	<b>1,140</b>	<b>912</b>	<b>2,212</b>
<b>Minority interest</b>	<b>1</b>	<b>2</b>	<b>2</b>
<b>NET INCOME</b>	<b>1,141</b>	<b>914</b>	<b>2,214</b>

Lire/Euro exchange rate = 1,936.27.









## List of companies consolidated on a line-by-line basis as at 30 June 1999

Company name	Registered offices	Business	Share capital as at 30.06.1999	% Group interest	Held by	%
<b>Lire</b>						
<b>Parent:</b>						
Enel SpA	Rome		12,126,150,379,000			
<b>Subsidiaries:</b>						
CESI SpA - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta SpA	Milan	Research, testing and inspection services	16,000,000,000	65.03	Enel SpA	65.03
Conphoebus SpA	Catania	Research and engineering services	1,506,000,000	100.00	Enel SpA	100.00
Elettroambiente SpA	Rome	Use of solid urban waste as fuel	500,000,000	100.00	Enel SpA Ismes SpA	81.00 19.00
Ismes SpA	Seriate (BG)	Civil and mechanical engineering, hydraulic systems	15,000,000,000	100.00	Enel SpA	100.00
Sei SpA	Rome	Real estate and general services	186,000,000,000	100.00	Enel SpA Ismes SpA	99.89 0.11
Immobiliare Dalmazia Trieste SpA	Rome	Real estate	250,000,000	100.00	Enel SpA Sei SpA	61.20 38.80

## List of companies accounted for under the equity method as at 30 June 1999

Company name	Registered offices	Business	Share capital as at 30.06.1999	% Group interest	Held by	%
<b>Lire</b>						
WIND Telecomunicazioni SpA	Rome	Telecommunications services	600,000,000,000	51.00	Enel SpA	51.00

## List of unconsolidated subsidiaries as at 30 June 1999

Company name	Registered offices	Business	Share capital as at 30.06.1999	% Group interest	Held by	%
<b>Lire</b>						
CISE Tecnologie Innovative Srl	Segrate (MI)	R&D	1,200,000,000	100.00	Enel SpA	100.00
Enel Produzione SpA	Rome	Electricity generation	1,000,000,000	100.00	Enel SpA	100.00
So.I.e. Società luce elettrica SpA Enel Group	Perugia	Public lighting plant and services	200,000,000	100.00	Enel SpA CISE Tecnologie Innovative Srl	99.00 1.00
Enel Distribuzione SpA	Rome	Electricity distribution	200,000,000	100.00	Enel SpA	100.00
Enelpower SpA	Milan	Engineering and contracting	200,000,000	100.00	Enel SpA CISE Tecnologie Innovative Srl	99.00 1.00
Enel Trade SpA	Milan	Trading electricity	200,000,000	100.00	Enel SpA	100.00
Erga - Energie Rinnovabili Geotermiche ed Alternative SpA	Pisa	Generating energy from renewable sources	200,000,000	100.00	Enel SpA	100.00
Gestore della rete di trasmissione nazionale SpA	Rome	Transmission and distribution of electricity	200,000,000	100.00	Enel SpA	100.00
Se.m.e. Servizi manutenzione elettrica SpA	Rome	Energy services	200,000,000	100.00	Enel SpA CISE Tecnologie Innovative Srl	99.00 1.00
So.g.i.n. - Società Gestione Impianti Nucleari per azioni	Rome	Decommissioning nuclear power stations, closing down fuel cycle	200,000,000	100.00	Enel SpA	100.00
Terna - Trasmissione Elettricità Rete Nazionale SpA	Rome	Operating and maintaining grid	200,000,000	100.00	Enel SpA	100.00
CONSORZIO SICILTECH	Palermo	Development of small and medium-sized companies in Sicily	10,000,000	99.00	Ismes SpA	99.00

## List of associated companies as at 30 June 1999

Company name	Registered offices	Business	Share capital as at 30.06.1999	% Group interest	Held by
<b>Lire</b>					
SOTACARBO - Società Tecnologie Avanzate Carbone SpA	Cagliari	Development of coal utilisation technologies	9,000,000,000	25.00	Enel SpA
Istedil SpA	Rome	Building safety technology	2,000,000,000	50.00	Ismes SpA
Consorzio Isas	Matera	Training and various services	10,000,000	37.00	Ismes SpA
Consorzio Corarc	Seriate (BG)	Scientific research co-ordination	52,000,000	50.00	Ismes SpA
Consorzio Progetto Torre di Pisa	Pisa	Co-ordinating studies for the restoration of the Tower of Pisa	60,000,000	24.98	Ismes SpA
Consorzio Qseal	Milan	Software quality certification	4,000,000	25.00	Ismes SpA
Consorzio Tema (in liquid.)	Brindisi	Scientific research co-ordination	45,500,000	43.96	Ismes SpA
Consorzio Mitelwa (in liquid.)	Vertermate con Minoprio (CO)	Environmental remediation	50,000,000	30.00	Ismes SpA
Parco Eolico Foiano Srl	Foiano Val F. (BN)	Building and operation of wind farm	1,300,000,000	50.00	Ismes SpA
SIET SpA	Piacenza	Thermal-technology studies, projects and research	2,184,480,000	41.56	Ismes SpA
Idroenergia Consorzio	Rome	Desalting plant	100,000,000	50.00	Ismes SpA
Consorzio Gestione Centro Iside	Prignano Cil. (SA)		200,000,000	49.00	Ismes SpA







The following table summarises the results of the first six months of 1999.  
The Statement of Income, drawn up in conformity to Italian law, has been reclassified according to international standards.

Billion lire

	Half-year 1999	Half-year 1998	Change	
Revenues:				
- Tariff revenues	13,140	12,826	+314	+2.4%
- Equalisation Fund contributions	5,319	6,287	-968	-15.4%
- Other revenues	1,024	986	+38	+3.8%
<b>Total revenues</b>	<b>19,483</b>	<b>20,099</b>	<b>-616</b>	<b>-3.1%</b>
Operating costs:				
- Personnel	3,758	4,032	-274	-6.8%
- Thermal fuels	2,625	3,484	-859	-24.6%
- Electricity purchases	3,340	3,328	+12	+0.4%
- General services and rentals	1,068	1,092	-24	-2.2%
- Materials	744	683	+61	+8.9%
- Other costs	235	196	+39	+19.9%
- Capitalised costs	(932)	(877)	(55)	(+6.3%)
<b>Total operating costs</b>	<b>10,838</b>	<b>11,938</b>	<b>-1,100</b>	<b>-9.2%</b>
<b>Gross operating income</b>	<b>8,645</b>	<b>8,161</b>	<b>+484</b>	<b>+5.9%</b>
Amortisation, depreciation and provisions:				
- Amortisation and depreciation	3,096	2,913	+183	+6.3%
- Provisions and write-downs	284	338	-54	-16.0%
<b>Total amortisation, depreciation and provisions</b>	<b>3,380</b>	<b>3,251</b>	<b>+129</b>	<b>+4.0%</b>
<b>Operating income</b>	<b>5,265</b>	<b>4,910</b>	<b>+355</b>	<b>+7.2%</b>
Financial charges, net	(583)	(842)	(-259)	(-30.8%)
Investment write-downs	(13)	(18)	(-5)	(-27.8%)
<b>Income before extraordinary items, additional depreciation and income taxes</b>	<b>4,669</b>	<b>4,050</b>	<b>+619</b>	<b>+15.3%</b>
Extraordinary income (expenses), net	165	(273)	+438	-
Additional depreciation	(1,226)	(1,147)	(+79)	(+6.9%)
<b>Income before income taxes</b>	<b>3,608</b>	<b>2,630</b>	<b>+978</b>	<b>+37.2%</b>
Income taxes	(1,160)	(1,511)	(-351)	(-23.2%)
<b>Net income for the period</b>	<b>2,448</b>	<b>1,119</b>	<b>+1,329</b>	<b>+118.8%</b>

## Revenues

Revenues were down overall by lire 616 billion (-3.1%) compared to the first half of 1998 due to a reduction of lire 968 billion in contributions from the Electricity Industry Equalisation Fund, which was only partially offset by an increase of lire 314 billion in tariff revenues and in other revenues of lire 38 billion.

Tariff revenues were up by 2.4% compared to an increase of 0.7% in quantities sold, due to the different mix (increase in low and medium-voltage sales and drop in high-voltage sales). Of the decrease in contributions from the Equalisation Fund, lire 700 billion referred to the component relating to thermal generation following the fall in fuel costs, a phenomenon which also led to reductions in both contributions for energy purchased abroad (tied to the same parameters), and the “avoided fuel cost” component as regards the contributions for energy purchased from domestic producers.

The increase in other revenues is also linked to the start-up of activities carried out for third parties on the part of the Engineering and Contracting, Real estate and General services, Distribution and sale Areas.

## Operating costs

These were down overall by lire 1,100 billion (-9.2%) with respect to the first half of 1998, mostly because of the drop in fuel costs and personnel costs.

In particular, there was a drop of lire 859 billion (-24.6%) in thermal fuel costs during the six months, hence in excess of the decrease in contributions for thermal generation, also due to improvements in efficiency and in the policies for the purchase and management of fuels.

The expense incurred for electricity purchases was generally stable, compared to the 4.9% increase in the quantities acquired. The unit cost of purchases made from foreign producers remained overall more or less constant, whilst that relating to domestic producers showed a decline due to the said “avoided fuel cost” component. It is important to note the growth, compared to the first six months of 1998, of the imbalance between costs relating to energy purchased abroad and the relevant Equalisation Fund contributions, which went from lire 266 billion to lire 529 billion according to the severely penalising mechanism introduced by the Authority's resolution 70/97.

Personnel costs were down by lire 274 billion (-6.8%) in line with the reduction of 7% in average headcount.

## Gross operating income

The gross operating income grew by lire 484 billion (+5.9%) which can be broken down as follows:

### Billion lire

Increase in tariff and other revenues	352
Reduction in Equalisation Fund contributions,	
net of changes in the costs of fuels and electricity purchases	(121)
Decrease in personnel costs	274
Other changes	(21)
<b>Total</b>	<b>484</b>

### Operating income

Operating income is up by lire 355 billion with respect to the first half of 1998 (+7.2%) having deducted, from the gross operating income, higher depreciation for lire 183 billion due to plants completed during the 1998 financial year and a decrease of lire 54 billion in provisions and write-downs.

### Net financial charges

These were down by lire 259 billion (-30.8%) due both to the reduction in debt, which went from lire 27,394 billion as at 30 June 1998 to lire 17,609 billion as at 30 June 1999 (lire -9,785 billion), and to the lower interest rates with respect to the first six months of 1998.

### Net extraordinary income

The extraordinary items returned a positive balance of lire 165 billion in the first six months of 1998 against a loss of lire 273 billion in the same period in 1998. The expenses include early retirement packages for lire 476 billion, the extraordinary provisions for litigation and contingent liabilities for lire 600 billion to cover potential estimated losses for both suspended investment initiatives and social security issues, as well as an allocation of lire 220 billion for losses relating to the restructuring of derivative contracts (swap and swap option), to cover interest rate fluctuation risks on long-term floating rate loans which were redeemed in advance during the period.

The income mainly refers to deferred tax assets from prior years recognised for lire 1,410 billion following the introduction of a new accounting principle.

### Additional depreciation

The additional depreciation, recognised solely for tax purposes, grew by lire 79 billion compared to the first six months of 1998, in line with the increase in ordinary depreciation.

### Income before income taxes

The pre-tax income showed an increase of lire 978 billion (+37.2%) on account of the following items:

#### Billion lire

Increase in operating income	355
Decrease in net financial charges	259
Reduction in investment write-downs	5
Extraordinary items	438
Increase in additional depreciation	(79)
<b>Total</b>	<b>978</b>

### Income taxes

Income taxes for lire 1,160 billion fell by lire 351 billion, mainly on account of deferred tax assets recognised for lire 475 billion on income items subject to deferred deductibility.

In the first six months of 1998 only current taxes for lire 1,511 billion were recognised.

The same item, in the first six months of 1999, rose to lire 1,635 billion.

The *cash flows* for the first six months of 1999 are set out below:

Billion lire

	Half-year 1999	Half-year 1998
<b>Cash flows from operating activities</b>		
Net income	2,448	1,119
Depreciation and amortisation	4,322	4,060
Write-down of fixed assets	13	18
Net changes in reserves for risks and charges	1,328	367
Net change to employee severance indemnities reserve	142	(53)
Loss (gain) on disposal of assets, net	46	(28)
Interest income	(216)	(269)
Interest expense	799	1,111
Income taxes	(250)	1,511
Cash generated from operating income before working capital changes	8,632	7,836
(Increase) Decrease in:		
- Inventories	(48)	95
- Trade receivables	17	(117)
- Sundry receivables and payables	118	(225)
- Net receivables from Equalisation Fund (current items)	1,094	961
Cash generated from operations	9,813	8,550
Interest received	145	135
Interest paid	(1,013)	(1,162)
Net cash provided by operating activities	8,945	7,523
<b>Cash flows from investing activities</b>		
Investments in:		
- Intangible assets	(11)	(14)
- Tangible assets	(2,425)	(2,405)
Change in investments	141	(143)
Net cash used in investing activities	(2,295)	(2,562)
<b>Cash flows from financing activities</b>		
Change in long-term debt <sup>(1)</sup>	(6,602)	(1,306)
Change in short-term debt	137	(502)
Net cash used in financing activities	(6,465)	(1,808)
<b>Net cash flows for the period</b>	<b>185</b>	<b>3,153</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>2,846</b>	<b>378</b>
<b>Cash and cash equivalents at the end of period</b>	<b>3,031</b>	<b>3,531</b>

<sup>(1)</sup> Net of own bonds and deferred interest on the zero-coupon bond.

### Cash flows from operating activities

During the first six months of 1999, current operations generated cash of lire 8,945 billion, showing an increase of lire 1,422 billion on the same period for 1998; operating activities before the change to net working capital contributed lire 796 billion (+10.2%) towards this improvement. The increase in recovery of receivables from the Equalisation Fund (current items) amounting to lire 133 billion, the increase in advance payments received for connection cost contributions amounting to about lire 100 billion and the increase in payables due to affiliates outside the consolidation area totalling lire 170 billion represent the main other phenomena.

### Cash flows from investing activities

Capital expenditures for the six-month period amounted to lire 2,425 billion, which was basically in line with those carried out in the same period of 1998; net cash taken up by investment activities came to lire 2,295 billion, compared to lire 2,562 billion for the first six months of 1998 when the WIND capital increase of lire 300 billion had been paid up.

### Cash flows from financing activities

The high amount of cash generated by operations during the half-year, net of that absorbed by investing activities, made it possible to considerably reduce long-term debt, which went down from lire 26,524 billion as at 31 December 1998 to lire 19,922 billion as at 30 June 1999 (lire -6,602 billion). This change was derived from repayments of lire 6,727 billion, new loans for lire 62 billion and the change in own bonds held in portfolio amounting to lire 63 billion.

Repayments were made due partly to the natural expiration of loans and partly to advance redemption, following regular analysis and negotiation activities aiming to eliminate outstanding borrowings which become less advantageous.

### Net cash flows for the period

The balance of the flows outlined above amounted to lire 185 billion, showing an increase in cash and cash equivalents, represented by bank and postal deposits, cash in hand, and by time deposits in Italian lire.

The *debt* as at 30 June 1999 and the changes with respect to 31 December 1998 are set out in the following table:

Billion lire

	30.06.1999	31.12.1998	Change
Long-term debt:			
- Bonds	11,771	16,951	-5,180
- Long-term loans	8,316	9,801	-1,485
- Bonds in portfolio and deferred interest on zero-coupon bond	(165)	(228)	+63
Total	19,922	26,524	-6,602
Short-term debt	877	740	+137
Total	20,799	27,264	-6,465
Cash and cash equivalents	(3,031)	(2,846)	-185
Marketable securities	(159)	(8)	-151
Debt	17,609	24,410	-6,801

The following table shows the *balance-sheet data* as at 30 June 1999, reclassified according to management and comparative criteria with balances as at 31 December 1998:

Billion lire

	30.06.1999	31.12.1998	Change
Net fixed assets:			
- Tangible and intangible	60,894	62,826	-1,932
- Other non current	3,361	3,501	-140
<b>Total</b>	<b>64,255</b>	<b>66,327</b>	<b>-2,072</b>
Net working capital:			
- Trade receivables	5,313	5,296	+17
- Receivable from the Equalisation Fund and other assets	1,310	2,128	-818
- Inventory	1,130	1,082	+48
- Trade payables	(4,764)	(4,930)	+166
- Tax payables	(1,761)	(1,369)	-392
- Dividends payable	(1,964)	-	-1,964
- Other liabilities	(5,917)	(6,085)	+168
<b>Total</b>	<b>(6,653)</b>	<b>(3,878)</b>	<b>-2,775</b>
Gross invested capital	57,602	62,449	-4,847
Sundry reserves	(11,823)	(10,353)	-1,470
<b>Net invested capital</b>	<b>45,779</b>	<b>52,096</b>	<b>-6,317</b>
Shareholders' equity	28,170	27,686	+484
Debt	17,609	24,410	-6,801
<b>Total</b>	<b>45,779</b>	<b>52,096</b>	<b>-6,317</b>

*Net fixed assets* show a decrease of lire 2,072 billion mainly due to the surplus of depreciation with respect to capital expenditure for the period.

*Net working capital* fell by lire 2,775 billion mainly on account of the following:

- dividends to be distributed for lire 1,964 billion and paid on 1 July 1999;
- the reduction in contributions from the Electricity Industry Equalisation Fund for lire 1,094 billion.

*Shareholders' equity* increased by lire 484 billion being the difference between the net income for the period of lire 2,448 billion and the dividend of lire 1,964 billion.

*Debt* fell by lire 6,801 billion thus reducing the debt to equity ratio from 0.9 as at 31 December 1998 to 0.6 as at 30 June 1999.

*Net invested capital*, amounting to lire 45,779 billion as at 30 June 1999, was 62% covered by shareholders' equity and 38% by debt. As at 31 December 1998 the ratios were, respectively, 53% and 47%.







## Balance Sheet

Billion lire

<b>ASSETS</b>	<b>30.06.1999</b>	<b>31.12.1998</b>	<b>30.06.1998</b>
UNPAID CALLED-UP SHARE CAPITAL	-	-	-
FIXED ASSETS			
Intangibles	100	119	137
Tangibles	60,794	62,707	63,868
Other non-current assets	3,361	3,501	3,542
<b>Total fixed assets</b>	<b>64,255</b>	<b>66,327</b>	<b>67,547</b>
CURRENT ASSETS			
Inventories	1,130	1,082	1,578
Receivables	10,187	9,733	12,912
Short-term investments	978	856	461
Cash and cash equivalents	2,310	2,155	3,362
<b>Total current assets</b>	<b>14,605</b>	<b>13,826</b>	<b>18,313</b>
ACCRUED INCOME AND PREPAID EXPENSES	577	292	637
<b>TOTAL ASSETS</b>	<b>79,437</b>	<b>80,445</b>	<b>86,497</b>

Billion lire

LIABILITIES AND SHAREHOLDERS' EQUITY	30.06.1999	31.12.1998	30.06.1998
SHAREHOLDERS' EQUITY			
Share capital	12,126	12,126	12,126
Legal reserve	354	250	250
Other reserves	12,605	12,605	12,605
Retained earnings	637	633	633
Net income	2,448	2,072	1,119
Shareholders' equity	28,170	27,686	26,733
RESERVES FOR RISKS AND CHARGES	7,282	5,954	5,953
EMPLOYEE SEVERANCE INDEMNITIES RESERVE	4,541	4,399	4,595
PAYABLES			
Bonds	11,771	16,951	15,414
Bank loans	9,193	10,541	15,983
Trade and other payables	17,327	14,070	16,419
Total payables	38,291	41,562	47,816
ACCRUED PAYABLES AND DEFERRED INCOME	1,153	844	1,400
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	79,437	80,445	86,497
MEMORANDUM ACCOUNTS			
Guarantees given	185	142	495
Other	163,106	174,987	181,508
Total memorandum accounts	163,291	175,129	182,003

## Statement of Income

Billion lire

	Half-year 1999	Half-year 1998	1998
<b>REVENUES</b>			
Sales and services	18,459	19,113	37,744
Change to contract work in process	25	-	5
Capitalised costs and expenses	932	877	1,922
Other income and revenues	999	986	1,988
<b>Total operating revenues</b>	<b>20,415</b>	<b>20,976</b>	<b>41,659</b>
<b>OPERATING COSTS</b>			
Materials and consumables	6,733	7,353	13,844
Services	802	855	1,790
Leases and rentals	266	237	496
Personnel	3,758	4,032	7,931
Depreciation and amortisation	4,322	4,060	8,490
Write-downs	65	54	261
Changes in inventories	- 24	142	567
Provision for risks and charges	125	190	400
Other provisions	94	94	282
Other operating costs	235	196	446
<b>Total operating costs</b>	<b>16,376</b>	<b>17,213</b>	<b>34,507</b>
<b>Operating income</b>	<b>4,039</b>	<b>3,763</b>	<b>7,152</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	216	269	524
Interest and related charges	799	1,111	1,994
<b>Total financial income and expenses</b>	<b>-583</b>	<b>-842</b>	<b>-1,470</b>
<b>EQUITY LOSSES</b>	<b>-13</b>	<b>-18</b>	<b>-45</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>			
Income	1,490	25	345
Expenses	1,325	298	1,130
<b>Total extraordinary items</b>	<b>165</b>	<b>-273</b>	<b>-785</b>
<b>Income before income taxes</b>	<b>3,608</b>	<b>2,630</b>	<b>4,852</b>
Income taxes	1,160	1,511	2,780
<b>NET INCOME</b>	<b>2,448</b>	<b>1,119</b>	<b>2,072</b>

### Accounting criteria and procedures

Enel SpA's Financial Statements and Notes as at 30 June 1999 have been drawn up in conformity with criteria laid down by CONSOB rules, as set out in resolution no. 8195 of 30.06.1994 and subsequent amendments.

The valuation criteria used to draw up the Company's Financial Statements as at 30 June 1999 were the same as those adopted for the Financial Statements for the period ended 31 December 1998, except as regards the recording of deferred taxation; this criterion has been brought into line with accounting principle no. 25 relating to income taxes, issued in March 1999. As a result deferred tax assets, when there is reasonable certainty regarding the future realisation, have been recorded.

Overall, as at 30 June 1999, this gave rise to assets of lire 1,885 billion being recorded, with positive impact for the same amount on Shareholders' equity and net income for the first six months of 1999, of which lire 1,410 billion, relating to prior years, was recorded under extraordinary income, whilst the amount of lire 475 billion pertaining to the period was posted against income tax payable.

### Fixed assets

#### Intangibles - Lire 100 billion

The movements of the period and breakdown of items are as follows:

Billion lire		Purchases	Amortisation		
			Ordinary	Extraordinary expenses	
	31.12.1998				30.06.1999
Solidarity contribution	43	-	-	(22)	21
Software development	45	2	(13)	-	34
Miscellaneous	-	13	(1)	-	12
Total	88	15	(14)	(22)	67
Construction work in progress and advances	31	2	-	-	33
Total	119	17	(14)	(22)	100

Miscellaneous deferred expenses mainly refer to improvements to third party real estate on long-term leases.

#### Tangibles - Lire 60,794 billion

The value and the movements of the single categories are set out as follows:

Billion lire		Investments	Transfers during the period	Net disposals	Write-downs and other movements		
					Depreciation		
	31.12.1998						30.06.1999
Property	13,282	112	173	(8)	(366)	(3)	13,190
Plant and machinery	41,316	1,671	1,242	(16)	(3,868)	-	40,345
Industrial and commercial equipment	168	19	2	(1)	(27)	-	161
Other	199	16	1	(1)	(47)	-	168
Construction work in progress	7,742	607	(1,418)	-	-	(1)	6,930
Total	62,707	2,425	-	(26)	(4,308)	(4)	60,794

The amount of revaluation and restatements included in the gross values to be depreciated as at 30 June 1999 is as follows:

Billion lire	
Property	7,047
Plant and machinery	19,997
Equipment, other assets and plant under construction	174
Total	27,218

The following table compares the percentage at 30 June 1999 of the accumulated depreciation with respect to the gross value of the fixed assets subject to depreciation with that posted on 31 December 1998.

	30.06.1999	31.12.1998
Property	34.3%	32.9%
Plant and machinery	67.9%	66.5%
Industrial and commercial equipment	85.1%	84.2%
Other	92.1%	91.1%
<b>Total assets</b>	<b>64.0%</b>	<b>62.5%</b>

Fixed assets as at 30 June 1999, broken down by their use, are classified as follows:

Billion lire	Gross value	Accumulated depreciation	Net value	Additional depreciation	Book value
Generating plant: <sup>(1)</sup>					
- thermal	42,214	21,041	21,173	5,997	15,176
- hydroelectric	17,328	6,179	11,149	2,031	9,118
- geothermal	2,578	1,264	1,314	467	847
- alternative energy power stations	99	19	80	31	49
Total generating plant	62,219	28,503	33,716	8,526	25,190
Power lines and transformer stations	9,811	4,321	5,490	996	4,494
Distribution networks	63,067	42,323	20,744	3,161	17,583
Other plant and machinery	3,498	2,348	1,150	442	708
Other assets and equipment	3,432	2,575	857	373	484
Industrial buildings <sup>(2)</sup>	5,983	1,235	4,748	232	4,516
Civil buildings	966	244	722	28	694
Land <sup>(3)</sup>	195	-	195	-	195
<b>Total fixed assets in use</b>	<b>149,171</b>	<b>81,549</b>	<b>67,622</b>	<b>13,758</b>	<b>53,864</b>
Construction work in progress and advances	6,930	-	6,930	-	6,930
<b>TOTAL</b>	<b>156,101</b>	<b>81,549</b>	<b>74,552</b>	<b>13,758</b>	<b>60,794</b>

<sup>(1)</sup> Including industrial buildings and relevant land.

<sup>(2)</sup> Buildings for use as offices, warehouses, etc..

<sup>(3)</sup> Not relevant to the plants and buildings.

Hydroelectric plants include assets to be relinquished with a net book value of approximately lire 6,000 billion. Legislative Decree 79/99 (implementing directive 96/92/CE on the domestic electricity market) set the date on which the concessions for reservoirs held by Enel will expire, namely the thirtieth year after the enactment of the decree law, hence the year 2029.

In this year, unless the concession is renewed, all the reservoirs and related regulatory equipment, high-pressure pipes and sluices will be relinquished to the State in regular working condition.

Such plants are depreciated by taking into account the remaining life of the concession. Decree 79/99 also enabled for the Valle d'Aosta and the autonomous provinces of Trento and Bolzano to fix an alternative expiry date, but such a date has not hitherto been set.

The breakdown of capital expenditure during the six-monthly period is as follows:

Billion lire

Generation plant:	
- hydroelectric	111
- thermal	560
- geothermal	62
- alternative energy power stations	1
Total generation plant	734
Power lines and transformer stations	160
Distribution network	1,383
Property	87
Other assets and equipment	61
Total	2,425

*Depreciation* charged to the first six months of 1999, as with prior periods, has been calculated proportionately applying economic-technical rates representing the useful life of assets. Moreover, additional depreciation has been recorded up to the limit of the ordinary rates fiscally allowed, together with accelerated depreciation as allowed by existing fiscal legislation.

For the purpose of assessing the effects due to the application of tax regulations, depreciation has been recalculated based on the surplus economic-technical rates, applied to the book value of individual assets, in consideration of contributions received from customers and assuming their continuous application over a period of time.

Based on these criteria, accumulated depreciation as at 30 June 1999 and the depreciation for the six-month period would be lower, respectively, by lire 13,758 billion and lire 1,226 billion, than that appearing in the accounting records as they stand, with consequent positive effects, net of tax impact, of lire 8,083 billion on Shareholders' equity as at 30 June 1999 and lire 703 billion on the net income for the six-month period.

**Other non-current assets - Lire 3,361 billion**

Movements and breakdown are as follows:

Billion lire		Increases	Decreases	
	31.12.1998			30.06.1999
Investments	526	20	(13)	533
Receivables:				
- Electricity Industry Equalisation Fund				
to reimburse nuclear-related charges	1,786	36	(216)	1,606
- Other receivables	1,189	48	(15)	1,222
Total receivables	2,975	84	(231)	2,828
<b>Total</b>	<b>3,501</b>	<b>104</b>	<b>(244)</b>	<b>3,361</b>

Increases in *investments* are due to the re-integration of the share capital of the subsidiary Ismes SpA (lire +18 billion) and to the setting up of new companies to which the assets of various segments of the company will be transferred. Decreases relate mostly to the write-down of the Ismes SpA shareholding by lire 12 billion following losses recorded during the six months.

The Shareholders' equity of WIND Telecomunicazioni SpA, 51% affiliated, as at 30 June 1999, for the share pertaining to Enel, amounted to lire 129 billion against a book value of lire 306 billion. The differential does not represent any other than temporary impairment in value, in consideration of the company's good prospects, the present losses being due to the start-up phase of operations.

*Receivables from the Electricity Industry Equalisation Fund to reimburse nuclear-related charges* are carried net of lire 390 billion for the valuation allowance previously entered following resolution no. 58/1998 of 12 June 1998, with which the Energy Authority questioned the criteria for the reimbursement of some items.

Enel appealed to the TAR of Lombardy (Public Administration Court), against this resolution, which granted some of its claims 18 February 1999. Enel has, subsequently, challenged the resolution before the Consiglio di Stato (the superior tribunal of administrative law) in order to uphold its right to full reimbursement. The favourable findings, if any, will be recognised when the sentence becomes definitive, as the Authority still has the faculty to appeal against the decision. The receivables include lire 884 billion for charges related to future treatment of nuclear fuel and the decommissioning of nuclear plant.

*Other receivables* refer principally to two items. First, receivables for lire 544 billion due from INPS (Italian Social Security Institute) for reimbursement on social contributions payments made in respect of personnel employed in the South of Italy. Second, receivables in the form of tax advances for lire 501 billion on employee severance payments.



### Current assets

#### Inventories - Lire 1,130 billion

The breakdown of the inventories is as follows:

Billion lire

	30.06.1999	31.12.1998
Fuel	670	657
Materials and equipment	422	412
Contract work in process	38	13
Total	1,130	1,082

The stock of replaceable goods (mainly fuels) is substantially unchanged with respect to the previous financial year. The book value of the stock (measured with weighted average cost) at the close of period is slightly below the current market values of June 1999.

#### Receivables - Lire 10,187 billion

The balance is made up as follows:

Billion lire

	30.06.1999	31.12.1998
Trade	5,313	5,296
Electricity Industry Equalisation Fund	2,124	3,559
Deferred tax assets	1,885	-
Other	865	878
Total	10,187	9,733

*Trade receivables* are net of the relevant valuation allowance of lire 448 billion (lire 449 billion as at 31 December 1998).

*Equalisation Fund receivables* are offset by payables to the fund amounting to lire 2,189 billion. The net receivable as at 31 December 1998 was lire 1,029 billion. During the six-month period, past due receivables related to thermal production charges reimbursable were fully collected.

*Deferred tax assets* recorded starting from 1999, as explained under "Accounting criteria and procedures", mostly refer to provisions and write-downs with deferred tax deductibility.

**Short-term investments - Lire 978 billion**

The balance is made up as follows:

Billion lire

	30.06.1999	31.12.1998
Marketable securities	257	165
Time deposits	721	691
<b>Total</b>	<b>978</b>	<b>856</b>

*Marketable securities* include own "Special series bonds reserved for Enel personnel" amounting to lire 98 billion (lire 157 billion at 31 December 1998) and third-party bonds for lire 159 billion, acquired during treasury operations.

*Time deposits*, as at year-end 1998, entirely refer to repurchase agreements denominated in Italian lire with maturities of less than three months.

**Cash and cash equivalents - Lire 2,310 billion**

This item includes bank deposits for lire 2,250 billion (lire 2,077 billion as at 31 December 1998), related to both normal deposits needed for trading activities and money market operations in Italian lire in order to optimise the returns on surplus liquidity. Cash and cash equivalents are all quick assets.

**Accrued income and prepaid expenses - Lire 577 billion**

The item breaks down as follows:

Billion lire

	30.06.1999	31.12.1998
Financial components	128	128
Operating components	449	164
<b>Total</b>	<b>577</b>	<b>292</b>

The changes in the accruals and deferrals are the result of normal mid-year trends in operations; in particular, lire 190 billion refers to 14<sup>th</sup> month's pay and relative costs and lire 75 billion to levies and taxes (ICI, TOSAP, etc.) and insurance premiums.

The following table sets out receivables by maturity.

Billion lire	By 30.06.2000	From 30.06.2000 to 30.06.2004	Beyond 30.06.2004	Total
<b>Long-term receivables</b>				
Electricity Industry Equalisation Fund to reimburse nuclear-related charges	1,606 <sup>(1)</sup>	-	-	1,606
Other receivables	215	595	412	1,222
<b>Total</b>	<b>1,821</b>	<b>595</b>	<b>412</b>	<b>2,828</b>
<b>Current receivables</b>				
Trade receivables	4,843	415	55	5,313
Electricity Industry Equalisation Fund	2,124	-	-	2,124
Deferred tax assets	1,885 <sup>(1)</sup>	-	-	1,885
Other receivables	854	1	10	865
<b>Total</b>	<b>9,706</b>	<b>416</b>	<b>65</b>	<b>10,187</b>

<sup>(1)</sup> The balance is considered collectable within 12 months also in consideration of transfer operations in process.

### Shareholders' equity - Lire 28,170 billion

Movements during the first six months were as follows:

Billion lire	Share capital	Legal reserve	Other reserves	Retained earnings	Net income for the period	Total
31.12.1998	12,126	250	12,605	633	2,072	27,686
Distribution of net income for the 1998 financial year:						
- reserves	-	104	-	4	(108)	-
- dividends	-	-	-	-	(1,964)	(1,964)
Net income for the period	-	-	-	-	2,448	2,448
30.06.1999	12,126	354	12,605	637	2,448	28,170

The *share capital* at 30 June 1999 comprised no. 12,126,150,379 ordinary shares each with a par value of lire 1,000.

*Other reserves* mainly include the restatements reserve recorded in 1993 and 1994 when Enel was transformed into a public corporation (Law 292/1993) for respectively lire 10,607 billion and a reserve of lire 1,922 billion referring to reimbursements made earlier by the Treasury Ministry in compliance with Finance bills.

### Reserves for risks and charges - Lire 7,282 billion

Variations to these reserves during the first six months of 1999 are shown in the following table:

Billion lire	Provisions		Releases		Other movements	
	31.12.1998					30.06.1999
Pensions and similar	2,004	80	(89)	60		2,055
Deferred taxation on present value of social security contribution relief Law no. 151/1993	187	-	-	-		187
Other:						
- reserve for litigation and contingent liabilities	2,183	725	(14)	(60)		2,834
- reserve for treatment and disposal of nuclear fuel	927	25	(15)	-		937
- reserve for decommissioning of inactive nuclear plant	621	22	(38)	-		605
- reserve for financial derivatives	-	220	-	-		220
- provision for early retirement	32	444	(32)	-		444
Total	3,763	1,436	(99)	(60)		5,040
Total reserves for risks and charges	5,954	1,516	(188)	-		7,282

The provisions made to *reserve for pensions and similar* refer to lire 47 billion for the retired managers' pension scheme and lire 33 billion for the indemnities payable to employees in lieu of notice entitlement of employed personnel.

The *reserves for litigation and contingent liabilities* is designed to cover potential liabilities that could derive from ongoing legal proceedings (mainly related to supply contracts, labour disputes and the operation of plants) and were made on the basis of indications from lawyers internal and external to the Company, without taking account of the results of favourable sentences or those for which an unfavourable decision could not be reasonably quantified. As regards the latter, the reader is referred to the section "Commitments and risks not reported in the Balance Sheet".

In calculating the amount of the reserves, it has been accounted for not only presumed charges that could arise from judicial decisions and other litigation taking place during the period, but also the updating of estimates referring to circumstances arising in earlier financial years. The reserves in question do not include any amount relative to disputes concerning the Vajont disaster as, contrary to the foregoing statements, it is held that the liabilities claimed, while substantial, can be compensated by the Enel SpAs counterclaims for damages as they are both part of the same judicial proceedings and arise from the same event. Against the judicial proceedings in course and various other charges accruing in the six-monthly period a provision of lire 125 billion has been made. The reserves, moreover, include sums for potential charges referring to possible disposals or other uses of investment initiatives which were halted by management and social securities issues, which amount was estimated on the basis of currently available elements. The provision for the period amounts to lire 600 billion and on account of the nature of the expenses incurred was entered under extraordinary expenses.

The *reserve for financial derivatives* includes charges for the restructuring of derivative contracts, (swap and swap options), stipulated with financial counterparts in order to cover interest rate fluctuations on long-term loans with floating interest rates which have been repaid before their maturity date. The provision covers potentially recoverable costs, calculated at 30 June 1999, on contracts to cover interest rates fluctuations reassigned to other debt items still not covered for these risks.

The *reserve for early retirement* consists of provisions for the estimated extraordinary charges regarding the temporary offer to personnel for a termination of their employment contracts on account of organisational requirements following the measures adopted on 30 April 1999.

#### **Employee severance indemnities reserve - Lire 4,541 billion**

Movements during the six-month period are summarised as follows:

Billion lire

Balance as at 31 December 1998	4,399
Provisions	236
Releases for payments made and other movements	(94)
<b>Balance as at 30 June 1999</b>	<b>4,541</b>

The balance illustrates the sums allocated on behalf of employees severance indemnities in conformity to law, net of advances conceded to employees for "medical expenses" and purchase of the first residence.

**Payables - Lire 38,291 billion**

Details are as follows:

Billion lire

	30.06.1999	31.12.1998
Bonds	11,771	16,951
Bank loans:		
- long-term loans	8,316	9,801
- short-term loans	877	740
Total bank loans	9,193	10,541
Total financial payables	20,964	27,492
Other payables:		
- trade payables	4,764	4,930
- tax payables	3,646	1,369
- payable to social security institutes	923	1,080
- payable to the Electricity Industry Equalisation Fund	2,189	2,530
- other payables and advances	5,805	4,161
Total other payables	17,327	14,070
<b>Total payables</b>	<b>38,291</b>	<b>41,562</b>

In brief, at 30 June 1999, *long-terms loans* amounted to lire 20,087 billion, broken down as follows:

Billion lire

	30.06.1999	31.12.1998
Bonds	11,771	16,951
Long-term loans	8,316	9,801
<b>Total</b>	<b>20,087</b>	<b>26,752</b>

The considerable reduction recorded during the six months (lire 6,665 billion) is the result of repayments, partly anticipated, for lire 6,727 billion and new loans for lire 62 billion. Bonds include Italian State guaranteed loans for lire 6,835 billion that were issued before the Company became a public corporation.

An analysis of loans by type of interest (fixed or floating) and maturity date is set out as follows:

Billion lire	Maturity date	Current maturity		Long-term maturity					Total
		30.06.1999	1999	2000	2001	2002	2003	beyond	
Bonds:									
- listed fixed-rate	1999-2008	2,936	-	-	-	500	500	1,936	2,936
- listed floating-rate	1999-2001	3,861	1,400	2,081	380	-	-	-	2,461
- unlisted fixed-rate	2005	148	-	-	-	-	-	148	148
- unlisted floating-rate	1999-2019	3,891	-	-	32	43	35	3,781	3,891
Loans:									
- fixed-rate	2000-2006	270	58	49	120	22	7	14	212
- floating-rate	1999-2006	5,338	1,265	692	252	702	1,202	1,225	4,073
European Community funding: <sup>(1)</sup>									
- fixed-rate	1999-2010	3,028	405	690	621	438	254	620	2,623
- floating-rate	2003-2009	615	60	103	103	103	103	143	555
Total		20,087	3,188	3,615	1,508	1,808	2,101	7,867	16,899

<sup>(1)</sup> The community funding (EIB) includes both bonds and loans.

In brief, at 30 June 1999, 68% of long-term loans had floating rates of interest. However, in order to reduce the amount of loans subject to floating interest rate as at 30 June 1999 derivative instruments to hedge against interest rate fluctuations were in place for a par value of lire 9,443 billion, of which lire 6,043 billion for interest-rate swaps and lire 3,400 billion in zero-cost interest-rate collars.

Taking account of these hedging, the percentage of loans still exposed to floating interest rates has been estimated at about 41% by appropriately weighting the nominal value of the interest-rate collars.

At 30 June 1999, the fair value of derivative interest-rate instruments is negative for lire 116 billion net of lire 39 billion for accrued charges and lire 220 billion already allocated to the reserve for financial derivatives.

The following table sets out the various currencies in which loans are denominated, together with the average nominal rate of interest as at 30 June 1999.

Billion lire	Maturity	Average interest rate	
30.06.1999			
Currency:			
Italian lire	1999-2019	15,855	4.17%
Euro	1999-2010	2,828	6.00%
Deutsche mark	1999-2010	209	7.71%
French franc	1999-2005	161	9.84%
Belgian franc	1999-2008	175	9.07%
Dutch guildier	1999-2010	213	8.42%
Total EMU currencies	1999-2019	19,441	4.61%
U.S. dollar	1999-2008	107	9.09%
British pound	1999-2007	68	9.90%
Swiss franc	1999-2009	199	6.64%
Danish krone	2002	11	10.55%
Yen	1999-2010	261	6.06%
Total non-EMU currencies	1999-2010	646	7.22%
Total	1999-2019	20,087	4.69%

*Tax payables* at the end of June include the provision for taxes calculated on the six-monthly period and a higher VAT liability in line with the trend for the period.

*Other payables and advances* increased when a dividend of lire 1,964 billion was recognised. The sum, paid on 1 July 1999, was in part compensated by a reduction in the amounts due to personnel with the release of employee severance indemnities commencing from 1 January 1999 in respect of staff retired in 1998.

#### Accrued payables and deferred income - Lire 1,153 billion

Billion lire	30.06.1999	31.12.1998
Financial components	400	460
Operating components	753	384
<b>Total</b>	<b>1,153</b>	<b>844</b>

The financial components decreased with decline in the amount of loans and in the rates of interest.

The operating components account for elements not recognised at the close of the 1998 financial year, such as accrued payables for the 13<sup>th</sup> month, water rates and contributions to employee associations.



The following table shows the breakdown of payables by maturity.

Billion lire	By 30.06.2000	From 30.06.2000 to 30.06.2004	Beyond 30.06.2004	Total
Bonds	1,943	2,642	7,186	11,771
Bank loans	3,363	5,462	368	9,193
Trade and other payables	16,575	683	69	17,327
<b>Total</b>	<b>21,881</b>	<b>8,787</b>	<b>7,623</b>	<b>38,291</b>

#### Memorandum accounts - Lire 163,291 billion

The memorandum accounts set out the various guarantees, sureties, risks and commitments, as follows:

Billion lire	30.06.1999	31.12.1998
Guarantees given:		
- Sureties given to guarantee loans to subsidiaries and associated companies	185	141
- Sureties to guarantee third parties	-	1
<b>Total</b>	<b>185</b>	<b>142</b>
Other memorandum accounts:		
- Commitments made to suppliers for:		
. electricity purchases	113,723	125,751
. fuel purchases	37,964	41,067
. sundry supplies	7,458	4,300
. contract work	3,397	3,056
- Forward currency purchase commitments	227	251
- Forward currency sale commitments	-	182
- Various guarantees to credit institutions	335	336
- Securities as guarantees from third parties	-	1
- Third-party securities held in custody or deposit	2	43
<b>Total</b>	<b>163,106</b>	<b>174,987</b>
<b>TOTAL</b>	<b>163,291</b>	<b>175,129</b>

Commitments in respect of electricity purchases are as follows:

Billion lire	Domestic producers	Foreign producers	Total
Period:			
1/7/1999-2003	32,402	7,002	39,404
2004-2008	37,681	4,317	41,998
2009-2013	18,500	1,455	19,955
2014 and beyond	12,366	-	12,366
<b>Total</b>	<b>100,949</b>	<b>12,774</b>	<b>113,723</b>

Commitments given to domestic producers concern energy generation benefiting from CIP 6/1992 incentives.

Commitments for fuel purchases are as follows:

Billion lire	Natural gas	Fuel oil	Coal	Logistic services	Total
Period:					
1/7/1999-2003	9,398	803	287	256	10,744
2004-2008	8,187	830	-	-	9,017
2009-2013	8,187	-	-	-	8,187
2014 and beyond	10,016	-	-	-	10,016
<b>Total</b>	<b>35,788</b>	<b>1,633</b>	<b>287</b>	<b>256</b>	<b>37,964</b>

Amounts have been calculated on the basis of the parameters and exchange rates in force at the end of the six-monthly period, since the supplies in question have variable prices and are mostly denominated in foreign currency.

Items referring to sundry supplies and contract work concern both purchase commitments for capital expenditure and contracts as well as orders for operating requirements.

## Litigations

This section illustrates the principal legal actions before the courts. They mainly concern nuclear, tariff and environmental questions.

### *Nuclear charges*

Enel appealed to the Regional administrative court of Lombardy on 27 July 1998 against resolution 12 June 1998 no.58 of the Energy Authority. With this resolution the Authority reviewed the criteria previously adopted by the CIP to reimburse Enel, via the electricity tariffs, for the costs accruing from the decision to cease nuclear energy generation. The Authority found that all the reimbursements to Enel were correct, with the exception of certain items for an overall value of lire 390 billion. Enel, in its turn, lodged the foregoing appeal against this cutback and at the same time provided an equivalent amount to bad-debt provisions.

The Regional public administrative court of Lombardy, with sentence no. 612 of 18 February 1999, granted most of the requests made by Enel, recognising Enel's right to receive most of the sum cut back from its reimbursements, amounting to lire 278 billion and ruled that the difference of lire 112 billion be charged to Enel's account.

Enel has appealed to the superior public administrative court (Consiglio di Stato) to obtain full recognition to reimbursement and thus including the residual amount of lire 112 billion. The Authority still has the faculty to place a cross appeal.

### *Legal proceedings on tariffs*

Some companies with very high levels of energy consumption and consumer associations have challenged before the competent regional administrative courts, and also occasionally petitioning the Head of State, either wholly or in part the validity of the measures with which the CIP and the Authority has, over time, defined the electricity tariffs. The annulment of one of the measures objected to, although able to generate a series of requests for reimbursement by certain companies, would not, in Enel's opinion, compromise Enel's position. Any such an annulment would be followed by a new measure, issued by the Authority, which would, through the tariff system, provide ways to reimburse the charges to which Enel is entitled.

Another issue regarding tariffs refers to the decision of the superior public administrative court, of 14 May 1999, in favour of the Energy Authority that had appealed against the sentence of the public administrative court of Lombardy of 20 December 1997. (The sentence declared that resolution 70/97 by the Authority was invalid as regards the non recognition of the costs sustained by Enel for the importation of electricity, when such importation was needed in order to honour pre-existing long-term supply contracts). By reversing the decision of the court of Lombardy, which ruled in Enel's favour, the superior court upholds resolution 70/97, including its provisions on electricity imports.

*ATEL arbitration*

By virtue of three long-term supply contracts, Enel has been in contractual relations with the Swiss company ATEL since 1986. On account of the devaluation of the lira, subsequent to the stipulation of the contract, following the decision by the Authority to fix limits on reimbursements for long-standing contracts to guarantee supply and the gradual liberalisation of the electricity market in Italy, Enel considers that the relations between the two parties are no longer equitable. For these reasons it has requested that the two parties renegotiate the contractual terms in order to obtain the reciprocally equitable conditions that the contracts themselves set out to obtain.

As ATEL's proposals were held by Enel to be insufficient to redress the imbalance between the parties in the manner prescribed by the contracts, Enel is seeking an arbitral settlement in Geneva in application of the rules of the International Chamber of Commerce of Paris.

Enel is principally requesting the rescission of all contracts still in force with ATEL and that ATEL pay the price differences as from 1997 resulting from the new conditions fixed by the arbitration board. Alternatively, Enel is seeking such changes to the contracts as to make them equitable for both parties, together with the ruling that ATEL pay the difference in price from March 1997 on the basis of the new conditions fixed by the arbitration board.

The arbitration is only at a preliminary phase and, in any case, Enel believes that no charges other than those represented by the non-reduction of the existing contractual costs will occur.

*WIND - Deutsche Telekom*

Enel, together with France Télécom S.A. and WIND Telecomunicazioni SpA, has initiated legal action in the Court of Rome to obtain an injunction against Deutsche Telekom AG. The injunction is necessary to safeguard the interests and contractual position of Enel as party to the agreements reached in May 1998, whereby the parties undertook to observe conditions of exclusivity, non-competition and secrecy. Enel retains that Deutsche Telekom violated these obligations by negotiating and stipulating a Business Combination Agreement with WIND's principal competitor Telecom Italia SpA.

On 12 July 1999, the Rome Court recognised that Deutsche Telekom had failed to observe the undertakings in respect of non-competition and exclusivity contained in the agreements to which it was a party.

In the meantime, Enel, in conformity to the arbitration clause in the agreements, has filed an arbitration proceeding to be held in Geneva on the basis of the rules of the International Chamber of Trade of Paris in order to obtain, inter alia, redress for the damage sustained.

### *Environmental litigation*

Enel is a defendant in many proceedings regarding the question of electromagnetic fields. For the most part the proceedings are requests to move power lines or remove distribution sub-stations from property, advanced on account of the presumed health hazards of the latter and notwithstanding that such equipment was, in Enel's opinion, installed in full conformity to existing law. Only in a few cases have claims for compensation been advanced for damage to health attributed to the electromagnetic emissions of such equipment or lines.

As of today, very few sentences have been unfavourable to Enel, while no civil action brought against Enel for compensation for impairment to health has been successful. In this regard, however, there was an isolated penal sentence, passed in June 1999 by the Magistrates' Court of Rimini, that accepted the motion advanced by the "aggrieved parties" (which is possible in penal proceedings) and despite the absence of specific proof about the extent of the damage, condemned Enel to pay each of such "aggrieved parties" lire 2 million as "moral and symbolic damages". Enel has appealed against the sentence. In the foregoing proceedings concerning the movement or removal of lines or equipment on the grounds of presumed health hazards represented by electromagnetic fields, Enel, in addition to defending itself in court, has always appealed against the few unfavourable sentences. As a result there are no conclusive judgements unfavourable to Enel. For this reason Enel has not made any provisions on this question.

However, although the proceedings in this area are limited and the number of unfavourable sentences (not conclusive) are even more limited, it cannot be excluded, given the general public's concern for the question, that such proceedings will increase and that the court will interpret events differently. It should, however, be considered that this kind of litigation could be easily overcome if bill no. 4816 at present being examined by Parliament were approved. The bill provides for very significant plans for the remediation of the electricity grid but would also require the Energy Authority to lay down criteria, arrangements and conditions to recover the relative costs.

Some proceedings regarding planning, landscape and environmental issues related to the construction and operation of generation plant and power lines are still pending. The examination of such suits, and also on the basis of legal advice, leads the Company to believe that in general unfavourable sentences would be a remote possibility, although as concerns a limited number of cases unfavourable sentences cannot be ruled out, and whose consequences would entail, in addition to the payment of damages (in those few cases in which damages have been advanced and it is possible to recognise relationships of cause and effect), sustaining charges related to plant modification and their temporary shutdown. These are charges whose entity at the moment cannot be estimated, and cannot, therefore, be included in "provisions for litigation and contingent liabilities". However, such charges as regards modifications to plant, can be regarded as improvements to the investments and can, therefore, be covered from future cash flows.

### **Foreign currency options**

During the six-monthly period the Company has taken out options contracts to hedge against foreign exchange risks and optimise the management of currencies denominated in US dollars and Swiss francs for the purchase of fuel and electricity outside the EMU area. At 30 June 1999 contracts are in place for a nominal underlying amount of lire 2,413 billion and with a negative fair value of about lire 30 billion, reaching maturity in the second half of the present financial year.

## Revenues - Lire 20,415 billion

Details are as follows:

Billion lire

	Half-year 1999	Half-year 1998
Sales and services:		
- tariff revenues	13,140	12,826
- Electricity Industry Equalisation Fund contributions	5,319	6,287
Total	18,459	19,113
Change in contract work in process	25	-
Capitalised costs and expenses	932	877
Other income and revenues	999	986
Total	20,415	20,976

*Tariff revenues* rose by lire 314 billion, broken down by value and quantity as follows:

	Billion lire	Million kWh	L/kWh	Billion lire	Million kWh	L/kWh
	Half-year 1999			Half-year 1998		
High-voltage	772	19,101	40.42	839	20,395	41.15
Medium-voltage	3,567	38,364	92.98	3,505	37,733	92.89
Low-voltage	8,491	49,965	169.94	8,146	48,031	169.59
Railways for traction	70	2,352	29.63	72	2,395	30.12
Distributors and exports	240	4,017	59.75	264	4,448	59.35
Total	13,140	113,799	115.47	12,826	113,002	113.50

The increase in average unit revenue is the result of a different sales mix, more concentrated in low-voltage sales, which rose 4% during the six months, against high-voltage sales that fell 6.3% as industrial production declined.

The *Electricity Industry Equalisation Fund contributions* were made up as follows:

Billion lire

	Half-year 1999	Half-year 1998
Thermal generation	2,780	3,480
Energy purchases and renewable energy generation	2,539	2,807
<b>Total</b>	<b>5,319</b>	<b>6,287</b>

The thermal generation contributions fell by lire 700 billion (-20.1%) in line with the decline in reference fuel prices, with respect to the first six months of 1998.

On the base of the same parameter, contributions for electricity imports also fell by lire 214 billion. The remaining lire 54 billion reduction was the result of lower contributions for energy purchased from domestic producers also related to the foregoing parameter.

The *capitalised costs and expenses* recognises an increase of lire 55 billion following the increased use of stock. The higher level of stock utilisation was, in turn, the result of proportionally higher investments in the grid.

*Other income and revenues* mainly include contributions for connection costs and fixed charges on contractual operations, payments for maintenance and repairs, stock disposals, compensation for damage, hire and leasing rentals and the recovery of sundry expenses.

#### Operating costs - Lire 16,376 billion

Operating costs fell by 4.6% with respect to the first six months of 1998, showing an 80.2% incidence on revenues, compared to 82% during the first half of 1998.

The main components are shown below:

Billion lire

	Half-year 1999	Half-year 1998
Materials and consumables:		
- fuels	2,638	3,451
- electricity from third parties	3,340	3,328
- materials	755	574
<b>Total</b>	<b>6,733</b>	<b>7,353</b>
Services	802	855
Leases and rentals	266	237
Personnel	3,758	4,032
Depreciation and amortisation	4,322	4,060
Write-downs	65	54
Changes in inventory	- 24	142
Provisions for risks and charges	125	190
Other provisions	94	94
Other operating costs	235	195
<b>Total operating costs</b>	<b>16,376</b>	<b>17,212</b>

*Materials and consumables* fell as a result of the drop in fuel prices compared to the first six months of 1998. Materials costs, considered together with inventory changes rose by lire 61 billion, substantially in line with the material costs for internal construction costs (approximately lire 50 billion).

Costs for *services* were down by lire 53 billion mainly as a result of cutbacks and outsourcing rationalisation in the fields of maintenance and repair, general services for building, technical and IT services and consultants.

Spending on *leases and rentals* registered an increase of lire 29 billion mostly due to higher rentals following the outsourcing of the vehicle fleet, in addition to the rentals paid to Municipalities for the use of public areas (COSAP).

*Personnel expenses* were down by lire 274 billion (-6,8%), in line with the reduction in the average headcount (-7%).

The following table compares the average headcount category, with the first six months of 1998, and the actual headcount as at 30 June 1999:

	Average headcount		Change	Headcount at
	Half-year 1999	Half-year 1998		30.06.1999
Managers	819	919	-100	797
Supervisors	5,144	5,309	-165	5,221
White-collar	43,609	46,408	-2,799	43,754
Blue-collar	30,764	33,885	-3,121	30,412
Total	80,336	86,521	-6,185	80,184

*Depreciation and amortisation increased* by lire 262 billion (+6.4%) due to the considerable transfers of plant into operation during 1998.

*Provisions and write-downs* were down overall by lire 54 billion compared to the first six months of 1998 and mostly include the writing down of commercial receivables, allocations for pending litigations and other risks, allocations for the decommissioning of nuclear plant and treatment of fuel, and provisions to the retired managers' pension fund.

*Other operating costs* are affected by increased charges for taxes on pollutant substances.



### Financial income and expenses - Lire -583 billion

The balance is made up as follows:

Billion lire

	Half-year 1999	Half-year 1998
Financial income	216	268
Interest and related charges	-799	-1,110
Total	-583	-842

The decrease of lire 259 billion in net financial expenses is the result of the decrease in corporate debt and the decline in interest rates with respect to the first six months of 1998.

### Equity losses - Lire -13 billion

The item refers to the affiliate Ismes SpA for lire 12 billion and to other smaller adjustments.

### Extraordinary income and expenses - Lire 165 billion

This item showed a positive balance of lire 165 billion compared to a negative lire 273 billion for the first six months of 1998.

Expenses mainly comprised lire 476 billion for costs relating to staff early retirement incentives following reorganisation projects, an extraordinary allocation of lire 600 billion to the provision for litigation and contingent liabilities regarding both potential charges for the disposal or other use of assets for investment initiatives halted by management and for social security issues, as well as lire 220 billion allocated to the provision for financial derivatives as explained in the notes on liabilities.

The income mostly refers to deferred tax assets amounting to lire 1,410 billion recorded following the introduction of a new accounting principle.

### Income taxes - Lire 1,160 billion

Income taxes include lire 1,635 billion in current taxation on the income for the six-month period, less the favourable effect of lire 475 billion recorded in relation to deferred tax assets on income components with deferred deductibility.



## Balance Sheet expressed in Euro

Millions of Euro

<b>ASSETS</b>	<b>30.06.1999</b>	<b>31.12.1998</b>	<b>30.06.1998</b>
UNPAID CALLED-UP SHARE CAPITAL	-	-	-
FIXED ASSETS			
Intangibles	52	61	71
Tangibles	31,397	32,385	32,985
Other non-current assets	1,736	1,808	1,829
<b>Total Fixed Assets</b>	<b>33,185</b>	<b>34,254</b>	<b>34,885</b>
CURRENT ASSETS			
Inventories	584	559	815
Receivables	5,261	5,027	6,668
Short-term investments	505	442	238
Cash and cash equivalents	1,193	1,113	1,736
<b>Total Current Assets</b>	<b>7,543</b>	<b>7,141</b>	<b>9,457</b>
ACCRUED INCOME AND PREPAID EXPENSES	298	151	330
<b>TOTAL ASSETS</b>	<b>41,026</b>	<b>41,546</b>	<b>44,672</b>

Lire/Euro exchange rate = 1,936.27.

Millions of Euro

LIABILITIES AND SHAREHOLDERS' EQUITY	30.06.1999	31.12.1998	30.06.1998
SHAREHOLDERS' EQUITY			
Share capital	6,263	6,263	6,263
Legal reserve	183	129	129
Other reserves	6,510	6,510	6,510
Retained earnings	329	327	327
Net income	1,264	1,070	578
Shareholders' equity	14,549	14,299	13,807
RESERVES FOR RISKS AND CHARGES	3,761	3,075	3,074
EMPLOYEE SEVERANCE INDEMNITIES RESERVE	2,345	2,272	2,373
PAYABLES			
Bonds	6,079	8,754	7,961
Bank loans	4,748	5,444	8,255
Trade and other payables	8,949	7,266	8,479
Total payables	19,776	21,464	24,695
ACCRUED PAYABLES AND DEFERRED INCOME	595	436	723
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	41,026	41,546	44,672
MEMORANDUM ACCOUNTS			
Guarantees given	96	73	256
Other	84,237	90,373	93,741
Total memorandum accounts	84,333	90,446	93,997

Lire/Euro exchange rate = 1,936.27.

## Statement of Income expressed in Euro

Millions of Euro

	Half-year 1999	Half-year 1998	1998
<b>REVENUES</b>			
Sales and services	9,533	9,871	19,493
Change to contract work in process	13	0	2
Capitalised costs and expenses	481	453	993
Other income and revenues	516	509	1,027
<b>Total operating revenues</b>	<b>10,543</b>	<b>10,833</b>	<b>21,515</b>
<b>OPERATING COSTS</b>			
Materials and consumables	3,477	3,798	7,150
Services	414	442	924
Leases and rentals	137	122	256
Personnel	1,941	2,082	4,096
Depreciation and amortisation	2,232	2,097	4,385
Write-downs	34	28	135
Changes in inventories	-12	73	293
Provisions for risks and charges	65	98	207
Other provisions	49	49	146
Other operating costs	121	101	229
<b>Total operating costs</b>	<b>8,458</b>	<b>8,890</b>	<b>17,821</b>
<b>Operating income</b>	<b>2,085</b>	<b>1,943</b>	<b>3,694</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Financial income	112	139	271
Interest and related charges	413	574	1,030
<b>Total financial income and expenses</b>	<b>-301</b>	<b>-435</b>	<b>-759</b>
<b>EQUITY LOSSES</b>	<b>-7</b>	<b>-9</b>	<b>-23</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>			
Income	770	13	178
Expenses	684	154	584
<b>Total extraordinary items</b>	<b>86</b>	<b>-141</b>	<b>-406</b>
<b>Income before income taxes</b>	<b>1,863</b>	<b>1,358</b>	<b>2,506</b>
Income taxes	599	780	1,436
<b>NET INCOME</b>	<b>1,264</b>	<b>578</b>	<b>1,070</b>

Lire/Euro exchange rate = 1,936.27.



REPORT OF THE INDEPENDENT AUDITORS

ON THE SIX-MONTH REPORT

*(Translation from the original issued in Italian)*

To the Shareholder of  
ENEL Società per Azioni

1. We have audited the six-month report as of June 30, 1999, composed of the financial statements (Balance Sheet and Income Statement) and the related explanatory notes (Notes to the financial statements) of both ENEL Società per Azioni (the "Company") and ENEL Group (the "Group"). We have also reviewed the part of the report related to the information on operations (Report on Operations) with the sole purpose of verifying the consistency thereof with the rest of the six-month report.
2. Our audit was made in accordance with the auditing standard and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("CONSOB") and included such tests as we considered necessary for the purposes of our engagement.
3. For our opinion on the statutory and consolidated financial statements as of and for the year ended December 31, 1998, which are presented for comparative purposes as requested by the related CONSOB Bulletin, reference should be made to our auditors' reports dated April 26, 1999. Furthermore, this is the first year of our engagement for the audit of six-month report; accordingly, no audit has been performed on the corresponding six-month report of the previous year, presented for comparative purposes; therefore, no comment or opinion is expressed thereon.
4. In our opinion, the financial statements and related notes identified in paragraph 1. of this report, taken as a whole, have been prepared clearly and give a true and fair view of the financial position and results of operations of ENEL Società per Azioni and of the Group for the six-month period ended June 30, 1999, in accordance with the standards and procedures set out by the CONSOB regulation related to six-month reports as approved by Bulletin No. 8195 of June 30, 1994, and subsequent amendments.

5. For a better understanding of the six - month report attention is drawn to the following information contained in the Report on Operations or in the Notes to the financial statements of the Company and/or the Group:
- a. the Legislative Decree No. 79 of March 16, 1999 ("Bersani Decree"), extensively described in the Report on Operations, has changed significantly and will continue to change the Italian electricity market and the business of ENEL Group. The related effects on financial position and result of operation of the Company and the Group are, currently, not predictable.
  - b. As of June 30, 1999, the Company was involved in outstanding litigation and other uncertain situations regarding, mainly, the reimbursement of nuclear-related charges, tariffs, the environment, social security contributions, actions brought by consumers or consumers' associations, the outcomes of which could result in charges or income for the Company, in some cases not objectively quantifiable. The mentioned situations are extensively described by the Board of Directors' in the Notes to the financial statements of the Company and the Group.
  - c. The Company, both in the current period and in previous years, provided for additional depreciation, with regard to that based on the residual useful lives of the assets concerned, to the extent permitted by applicable fiscal legislation; the related effects are disclosed in the notes to the financial statements of the Company. These effects have been eliminated in the consolidated financial statements.
  - d. Following the new accounting principle on income taxes recently issued by the Italian Accounting Profession, the Company, in the six -month period, has recognized deferred tax assets. Consequently, the accounting method has been aligned to the one adopted in the consolidated financial statements as of December 31, 1998. The related effects are disclosed in the Notes to the financial statements of the Company.

ARTHUR ANDERSEN S.p.A.



Francesco Gargano - Partner

Rome, Italy

September 2, 1999



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Bob Noorda

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