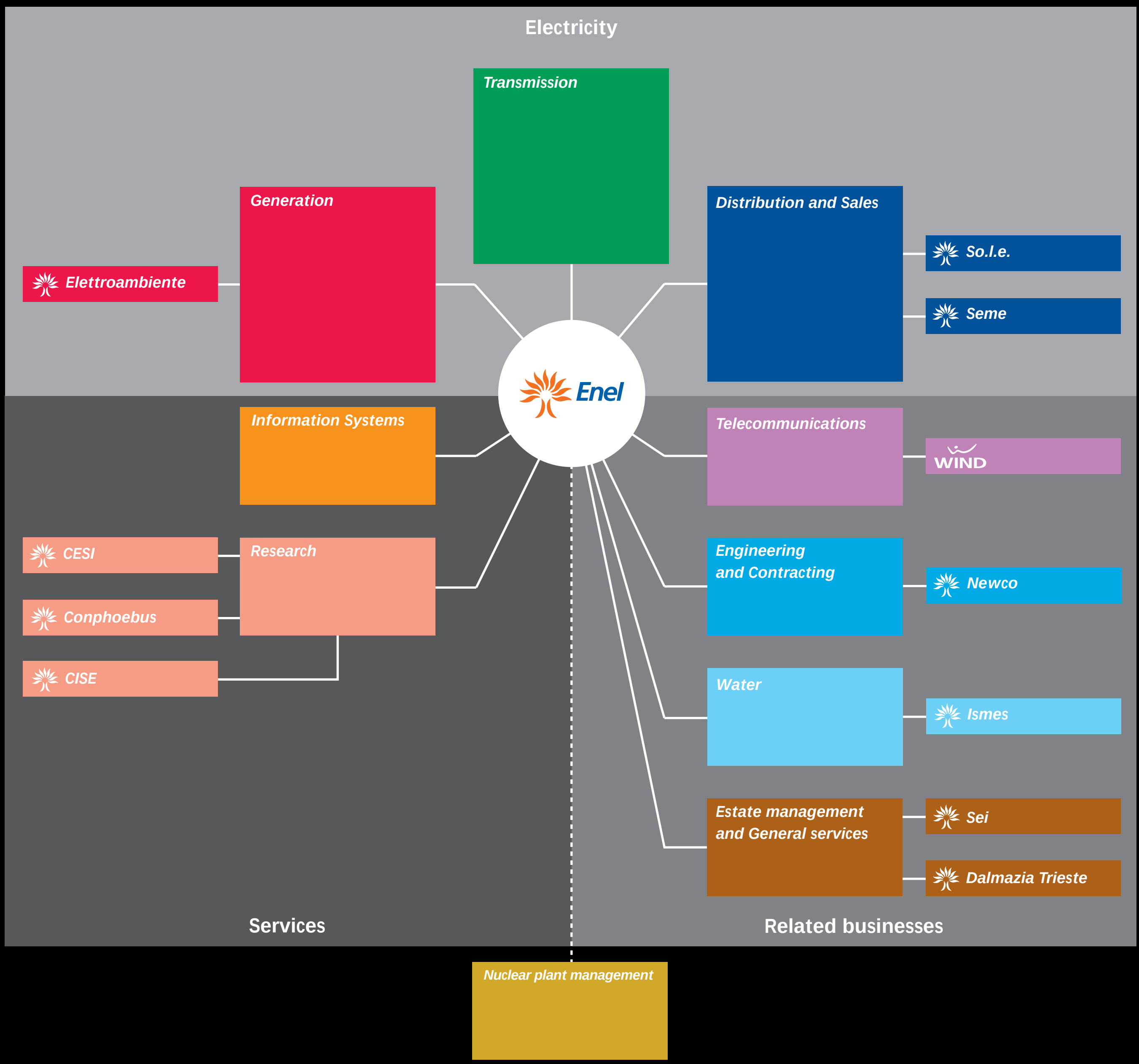

Updated to April 1999

Board of Directors

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Chicco Testa

vice-chairman
Alfonso Limbruno

chief executive
Francesco Tatò

directors
Alberto Giovannini
Vittorio Grilli

Board of Statutory Auditors

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Bruno De Leo

statutory auditors
Gustavo Minervini
Oreste Piemontese

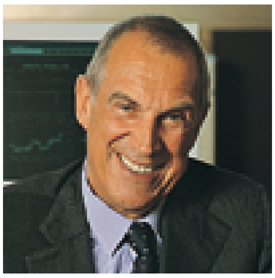
alternate statutory auditors
Francesco Bilotti
Umberto Aprea

General Manager
Claudio Poggi

secretary to the board of directors
Claudio Sartorelli

independent accountants
Arthur Andersen SpA

Towards the market



1998 results were very encouraging. We consolidated the positive business trend of the previous financial year and developed a comprehensive program aimed at maximizing the value of our resources, while actively participating in the process of liberalizing the market.

Thus Enel played a key role in defining the new shape of the electricity market whose final structure was established by decree law 19 February 1999. The decree safeguarded Enel's assets as well as its business position as one of the key players in Europe while giving ample space to the liberalization process.

However, when the new management took office in July 1996 we knew that the Company had to prepare itself for the challenge of liberalization. Therefore, planning and reorganization for this major change became one of our main goals. However, there was also another and more important goal, which, at the same time, was a direct consequence of liberalization process - the need to increase Company equity value.

As part of our 1998 initiatives to enhance asset value, the Company formed what is perhaps the most well-known of its new ventures: the fixed-mobile telecommunications company WIND, whose start-up, barely a year after winning the government license (March 1999), set an industry record. The company is now firmly established and with a strongly growing market value ranks among the best in the sector. At present its labor force amounts to 2,000 but this number is tipped to reach 6,000 in the near future.

Other initiatives were taken in the field of public illumination with the setting up of the company So.l.e. and in beyond-the-meter distribution services with the preparation of business plans for Seme. This company is scheduled to be set up this year and will operate in a sector estimated to be worth 7,000 billion a year. Another important venture is being prepared in the field of electricity-engineering consulting and contracting. The new company will capitalize on Enel's know-how in this sector and operate in Italy and abroad.

There is also the sector of water management and for this the business purpose of Enel's subsidiary Ismes has been suitably redefined. The newly structured company has been given responsibility for all water-management operations in order to take full advantages of the market opportunities arising from the application of the Galli law. Other ventures in the environmental sector are being studied, and particular attention is being dedicated to waste incineration. Once the difficulties characterizing operations in this highly sensitive area have been overcome, the new initiatives will be defined.

An equally important development has been the Company's reorganization into distinct divisions ahead of their incorporation as independent companies for generation, transmission and distribution. The Company's principal technical and managerial structures were also reorganized, clear cost-accounting lines established and the territorial devolution of responsibility for client-relations finally implemented. The entire 1998 reorganization process involved 40,000 persons.

The end-of-year results illustrated the first benefits of the new structure. Gross profit was 16,587 billion, 12.7% higher than 1997. Return on capital was 12.3% compared to 10.8% in 1997 and net profit at 4,286 billion was up 28.8% on 1997.
If we consider the Company's performance between 1996-98, these results are even more remarkable. Over this period the real value of the tariff's practiced by the Company decreased 10% and the reimbursement mechanism for electricity procured abroad cost the Company close on 1000 billion. Nevertheless, net profit almost doubled - from 2,226 billion in 1995 to 4,286 billion in 1998 and Enel's indebtedness fell by 12,000 billion lire to 24,547 billion. The drop in leverage from 1.4 to 0.7 clearly demonstrates that Enel is now in a quite solid and satisfactory condition to finance its own development.
These results reflect increased personnel productivity, higher operational efficiency and a more rationalized investment process. However, such improvements also denote new attitudes and commitments within the Company; a new approach to the business by employees, management and unions. Liberalization demands a major cultural change and these results show that the Company can rise to the challenge in a constructive and positive manner.
Enel's defining objective is to rapidly become an integrated and innovating group with high value-enhancing services and products along the lines of the other great utility companies in the world. Thus, though liberalization has set us some very tight schedules - for example, just six months to set up numerous companies, 18 to reach distribution agreements with about 10 major municipal utilities and between 24 to 36 months to relinquish 15,000 MW in generating capacity - we have no doubt that these deadlines and the organizational changes they presuppose can be taken in our stride.
Our past performance is the best guarantee for the overall success of the Company's strategy in a time of great change and important challenges as it is also a guarantee for the success of the privatization process as a whole.

Chief Executive
Francesco Tatò

Highlights

		1994	1995	1996	1997	1998
Operating results (in billions of Lire)						
Revenues from sales and services		33,443	36,203	36,841	37,791	37,815
Added value		22,834	23,754	23,935	23,543	24,612
Gross operating income		13,655	14,200	14,573	14,712	16,587
Operating income		7,864	8,358	8,235	8,689	9,604
Income before extraordinary items and taxes		4,542	5,019	5,720	6,316	8,123
Net income		2,355	2,226	2,226	3,327	4,286
Balance-sheet items (in billions of Lire)						
Invested capital		76,065	79,199	80,621	80,788	75,205
Shareholder's equity		24,664	25,920	30,388	32,515	35,880
Debt		35,791 (1)	36,162 (1)	34,919 (1)	33,175 (1)	24,547
Net income and non-cash items		8,813	9,075	9,212	9,774	10,844
Capital expenditure		8,026	7,494	7,372	6,466	5,871
Economic-financial ratios (%)						
Gross operating income / Revenues from sales and services		40.8	39.2	39.5	38.9	43.9
Operating income / Revenues from sales and services		23.5	23.1	22.3	23.0	25.4
Interest coverage (absolute value)		2.4	2.5	3.3	4.0	6.5
Net interest expense / Revenues from sales and services		9.9	9.2	6.8	5.8	3.9
Debt (Debt + equity)		59.2	58.2	53.5	50.5	40.6
Debt to equity (absolute value)		1.5	1.4	1.1	1.0	0.7
Cash flow / Capital expenditure		109.8	121.1	124.9	151.2	184.7
ROI		10.3	10.6	10.2	10.8	12.3
ROE		10.2	8.8	7.5	10.6	12.5
Year-end headcount	no.	103,550	97,937	95,464	88,957	84,938
Operating data						
Gross electricity generated	TWh	182.4	190.6	189.9	187.0	189.7
Electricity sold	TWh	205.4	211.6	213.8	219.3	226.2
Customers at year-end	'000s	28,246	28,495	28,727	29,032	29,343
Customers served by employee	no.	277	296	306	332	349
Electricity sold by employee	MWh	2,016	2,198	2,277	2,507	2,691
Average annual consumption per end-user	kWh	6,977	7,117	7,132	7,265	7,389

(1) Includes provisions for exchange rate fluctuations; balances as at 12.31.1998 are directly adjusted to reflect year-end exchange rates.

During 1998 the Group operated against a background that for the third consecutive year was characterized by slow economic growth.
GDP grew by 1.4% (1.5% in 1997), whilst industrial output rose 1.7% (2.2% in 1997).
Domestic demand grew slightly quicker than in 1997 (2.1% compared to 1.7%), above all in relation to capital goods (up 3.5% compared to 0.8% in 1997).
Growth in consumer demand remained at the same level as in 1997 (1.8%).
Annual retail price inflation was stable at 1.8% (1.7% in 1997), in line with the target set by the government's economic plan. Price stability benefited from a decline in raw materials prices and limited wage rises. The price of the fuel used by Enel fell significantly during 1998 with respect to the previous year, primarily due to a decline in international oil prices. The cost of Brent fell from an average of US$ 19.1 per barrel in 1997 to an average of US$ 12.74 in 1998 (a drop of 33%). The average price of copper, another raw material used in large quantities by Enel, hit its lowest level for 10 years during 1998 (US$ 0.75 per ounce).
The convergence process linked to the start-up of EMU led to a progressive improvement in monetary conditions, which saw the official discount rate decrease from 5.5% at the beginning of the year to 3% at the end of December.
Demand for electricity was up 2.6%, significantly more than in 1997 (1.5%), reaching a total of 180 million TOE.
Electricity consumption amounted to 260.9 billion kWh, up 2.8% on the previous year (after a rise of 3.1% in 1997), whilst Enel's sales reached 226.2 billion kWh, representing an increase of 3.1% (2.6% in 1997). The following tables provide information regarding the electricity market:

Italian electricity consumption

In millions of kWh

	1998	1997	1998-1997	
Gross generation	259,808	251,462	+8,346	+3.3%
(-) Electricity absorbed by generating auxiliaries	12,796	12,174	+622	+5.1%
= Net generation	247,012	239,288	+7,724	+3.2%
(+) Imports	41,633	39,827	+1,806	+4.5%
= Electricity supplied through the grid	288,645	279,115	+9,530	+3.4%
(-) Sales to foreign customers	901	995	-94	-9.4%
(-) Energy absorbed by pumping	8,344	6,728	+1,616	+24.0%
(-) Losses through the grid	18,500	17,719	+781	+4.4%
= Total demand	260,900	253,673	+7,227	+2.8%

Electricity supplied by Enel

In millions of kWh

	1998	1997	1998-1997	
Gross generation	189,684	187,031	+2,653	+1.4%
(-) Electricity absorbed by generating auxiliaries	10,200	9,830	+370	+3.8%
= Net generation	179,484	177,201	+2,283	+1.3%
Supplied by:				
- domestic producers [1]	41,508	36,640	+4,868	+13.3%
- foreign producers [1]	41,633	39,827	+1,806	+4.5%
(+) Total	83,141	76,467	+6,674	+8.7%
= Electricity supplied through the grid	262,625	253,668	+8,957	+3.5%
(-) Sales on an exchange basis, in the form of transmission on behalf of third parties, etc.	11,125	11,440	-315	-2.7%
(-) Energy absorbed by pumping and own consumption	9,003	7,261	+1,742	+24.0%
(-) Losses through the grid	16,329	15,704	+625	+4.0%
= Sales to customers	226,168	219,263	+6,905	+3.1%

[1] Purchases and grid services.

The Group improved on its 1997 performance, both in terms of operating results and financial position. *Net income* rose to Lit. 4,286 billion, against the Lit. 3,327 billion of 1997, whilst total debt was reduced from Lit. 33,175 billion at the end of 1997 to Lit. 24,547 billion as at December 31, 1998, leading to an improvement in the debt ratio, down to 0.7 from 1.0 at the end of 1997.
Operating results benefited from the reduction in costs and the restructuring undertaken, with *gross operating income* up 12.7% from Lit. 14,712 billion to Lit. 16,587 billion.
Operating income rose 10.5% from Lit. 8,689 billion to Lit. 9,604 billion.
Cash flows provided by operating activities almost doubled, rising from Lit. 8,386 billion in 1997 to Lit. 15,375 billion.

Capital expenditure decreased in monetary terms, down from Lit. 6,466 billion in 1997 to Lit. 5,871 billion, due to reductions in the unit cost of supplies and the standardization of components. The following table provides details of capital expenditure in 1998:

In billions of Lire

	1998	1997
Generating plant	1,869	2,322
Transmission lines and transformer stations	594	659
Distribution network	3,007	3,092
Land, buildings and other equipment	401	393
Total	5,871	6,466

Group expenditure on research carried out during 1998 totaled around Lit. 350 billion, in addition to investment of approximately Lit. 30 billion in prototypes and other items.

Tariff regulations

1998 saw contributions for thermal generation and the purchase of electricity from domestic and overseas suppliers (as regulated by Authority resolution 70/97) decline by 20%, decreasing from Lit. 53.526 per kWh at the end of 1997 to Lit. 42.944 per kWh at the close of 1998, as a result of fuel price trends.
The Regulator did not pass on the reduction in fuel prices until early 1999, using the surplus created during 1998, due to the fall in fuel costs, to recoup the accumulated deficit in the fuel account relating to the period between 1994 and 1997.
The deficit was cancelled by the end of 1998. Authority resolution 161/98, dated December 22, 1998, introduced a series of changes to the various tariff components, including an average reduction of around Lit. 12 per kWh. This was accompanied by increases in the quotas related to the reimbursement of nuclear-related charges (up from an average of Lit. 1.5 to 8 per kWh) and of the costs deriving from the application of CIP Directive 6/1992 regarding generation from renewable energy sources (up from an average of Lit. 9.7 to 11.1 per kWh). This will enable Enel to reduce the related credits during 1999.
1999 should see the results of the Authority's review of the tariff system as a whole, with reform to be based on the following criteria previously announced:
- a clear, transparent and reliable tariff structure;
- tariffs to be shown as unit prices net of taxes;
- correspondence between tariffs and the effective cost of electricity supplied to each category of user;
- tariff flexibility.

Generation During 1998, the Generation Division concentrated its attention on applying a series of policies aimed at improving operating efficiency.
"MOVE 2000" is the name given to the related strategic plan, which aims to restructure the Division's activities aligning its costs with those of other major European and American electricity generators. The object of the strategy is to improve the efficiency of all the Division's processes, based on a review of plant maintenance programs and power station management. Significant emphasis is being given to capital expenditure and fuel supplies, including sourcing, logistics, and the mix and specific consumption of different types of fuel.
At an organizational level, the Division is preparing for increased competition with the establishment of an "Energy management" Unit, which has the aim of optimizing the production and sale of energy on the future electricity market.
The Generation Division is therefore undergoing rapid transformation in preparation for the free market.

Electricity generation and fuel consumption

In 1998 Enel's net production rose 1.3% on the previous year to 179.5 billion kWh. Generation from renewable energy sources increased at a faster rate than traditional thermal production, as the following table shows:

In millions of kWh

	1998		1997		1998-1997	
Thermal	141,019	78.6%	139,919	79.0%	+1,100	+0.8%
Hydroelectric	34,486	19.2%	33,595	18.9%	+891	+2.6%
Geothermal	3,958	2.2%	3,672	2.1%	+286	+7.8%
Wind-power and photovoltaic	21	-	15	-	+6	+40.0%
Total	179,484	100.0%	177,201	100.0%	+2,283	+1.3%

There was an improvement in the mix of fuels used in thermal generation, with greater use of cheaper sources of energy (coal and orimulsion) and those which are more environment-friendly (natural gas).

In millions of kWh

	1998		1997	
Fuel oil	89,912	59.8%	97,956	65.7%
Natural gas	35,604	23.6%	30,764	20.7%
Coal	22,844	15.2%	20,174	13.6%
Orimulsion	2,090	1.4%	2	-
Other fuels	3	-	128	-
Total	150,453	100.0%	149,024	100.0%

The increased use of coal, in full compliance with environmental legislation, was due primarily to the entry into service of the desulfurization units (desox) at the Fusina, Brindisi Sud and Sulcis power stations. The generation with orimulsion began, providing an extremely low cost source of energy. A total 2,090 million kWh was produced by the Brindisi Sud power station.
The greater use of natural gas in place of fuel oil with low sulfur content was linked to Sonatrach supplies, which reached full capacity during the year, and the new contract with SNAM. This enabled the Division to achieve cost-savings, particularly during the second half of the year.

Generating plant

Investment in new plant during 1998 breaks down as follows:

In billions of Lire

	1998	**1997**	**1998-1997**
Thermal	1,327	1,724	-397
Hydroelectric	359	417	-58
Geothermal	175	174	+1
Alternative energy sources	8	8	-
Total	1,869	2,323	-454

The reduction in investment was due to the fact that expenditure to bring thermal plants into line with current environmental regulations neared completion during the year, and the implementation of a more efficient investment program in accordance with MOVE 2000.

Enel's net efficient generating capacity as at December 31, 1998 stood at 56,894 MW, as the following table shows:

MW

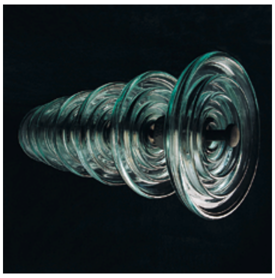
	as at 12.31.**1998**		as at 12.31.**1997**	
Thermal	39,850	70.1%	39,212	69.7%
Hydroelectric	16,470	28.9%	16,478	29,3%
Geothermal	547	1.0%	529	1.0%
Wind-power and photovoltaic	27	-	17	-
Total	56,894	100.0%	56,236	100.0%

The conversion of a group of power stations in La Spezia to combined-cycle generation is expected to be completed during 1999, as is the process of bringing the Vado Ligure power station into line with environmental regulations.
The availability of full capacity at the Division's large thermal groups, equipped with desulfurization units, will allow further improvement in the mix of fuels used during 1999, as well as providing better environmental safeguards.

During 1998 Enel continued to implement its commitment to reducing emissions.
Work was carried out on a number of sections. In the last ten years the following reductions in the level of emissions have been achieved:

- 56% in sulfur dioxide emissions (substantially unchanged in 1998);
- 60% in nitric oxide emissions (down 22% in 1998 alone);
- 67% in dust emissions (down 14% in 1998 alone).

The process of appraising the environmental impact of the conversion of the Porto Corsini, Livorno and Santa Barbara power stations to combined-cycle generation went ahead.
Measures were adopted at the Division's geothermal plants to reduce emissions of a number of gases into the atmosphere, above all hydrogen sulfide (H_2S) contained in sub-soil fluids.
The actions undertaken have led to a significant overall improvement in the Division's environmental performance throughout all its operations, as described in Enel's "Environmental Report".



Transmission The Transmission Division's activities include the dispatching and transmission of electricity through the national grid, in addition to managing the purchase of electricity from other domestic and overseas producers.
1998 saw a thorough rationalization of the Division's main processes, in preparation for the radical changes to be introduced as a result of deregulation of the market.
This will involve the conferment of dispatching and grid management to a company outside the Group ("Independent System Operator"), whilst ownership of the network is to be transferred to a specifically created company, controlled by Enel. This new company will be responsible for maintenance and the implementation of investment projects as specified by the "Operator".
In order to create a control system capable of coping with the future demands of the electricity supply market, the Transmission Division has redesigned the entire structure of the integrated remote control system for transmission plant (the IRCS Project).
The objective of the IRCS Project is to integrate and concentrate all network control functions and remote control processes at three new Integrated Control Centers (ICCs), which will be essential in order to guarantee the safety, transparency and independence of dispatching operations. The new ICCs will replace the existing eight control centers.
The centers will be interconnected and will constitute a single system linked with peripheral remote-controlled equipment via a data collection network located throughout the country.
Rapid completion of the new system's installation is essential in order to have the IRCS up and running by the year 2000.

The purchase of electricity from other producers

During 1998 the Division began the process of renegotiating overseas take or pay long-term electricity supply contracts with the aim of reducing the financial impact of the regulatory resolution no. 70/97, which aligned the related contributions with the reimbursement of fuel costs. As a result of the reduction in fuel prices, a net charge of Lit. 660 billion was incurred by Enel in 1998 as a consequence of long-term supply contracts, despite the policy of purchasing electricity on the spot market on extremely favorable terms.

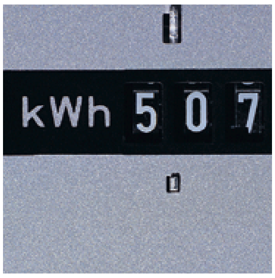
Purchases from domestic producers increased significantly (up 18%), in accordance with the planned increase in subsidized generation set out in CIP Directive 6. This raised the cost of electricity for Enel.
Purchases during 1998 break down as follows:

	In billions of Lire		In millions of kWh		Lire/kWh	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**
Purchases from domestic producers	3,552	3,341	31,445	26,623	112.96	125.49
Purchases from overseas producers	2,643	2,617	40,565	38,698	65.15	67.63

Transmission plant

1998 saw the implementation of an innovative program aimed at rationalizing plant operation and maintenance. The program, known as "RETE '98", will allow for significant reductions in costs and capital expenditure via the simplification of technical specifications, a review of project planning and execution and the reduction of the cost of purchasing major components. Partly as a result of the program, expenditure on new transmission plant has fallen by 10%, with investment in transformer stations down to Lit. 353 billion against the Lit. 519 billion of 1997. Investment on power lines, on the other hand, rose from Lit. 140 billion to Lit. 240 billion.
A total of 262 km of power lines entered service during 1998 (including 196 km of 380 kV line), whilst a further 380 kV was added to transformer station capacity (including new and upgraded stations) resulting in total capacity of 3,263 MVA.
Construction of the 400 kV direct current transmission line linking Italy and Greece began. The new line will have a capacity of 500 MW. Work is scheduled for completion by the year 2000, with expenditure amounting to around Lit. 650 billion. Given that the link to Greece represents one of its primary objectives, the EU has financed around 40% of the total cost.
Throughout 1998, the Division pursued its commitment to the E-net project, relating to the installation of fiber-optic cable back-bone to be rented to WIND, which will integrate the new lines into its existing network. As at December 31, 1998, work was on schedule with a total of 3,550 km of fiber-optic cable wrapped around laid alongside high-voltage transmission lines. 1999 will see a further 2,500 km installed.
All capital expenditure projects were designed to improve the environmental impact of the Division's operations, restructuring wherever possible the existing network, including via the use of innovative design and installation systems, such as aerial photogrammetry, which aids in identifying the best route for new transmission lines to follow.
Total transmission capacity, as at December 31, 1998, breaks down as follows:

Stations	no.	235	Lines	km	21,934
Transformers	"	555	3-phase lines	"	25,310
Bays	"	3,310	Fiber-optic cable	"	3,881



Distribution and Sales During 1998 the Distribution Division continued its review of operations, processes and organizational structure that has already resulted in significant restructuring, in line with the Division's principal objectives aimed to:

- maximize the efficiency of the distribution network;
- offer ongoing improvements to quality;
- concentrate on developing a customer-oriented approach;
- streamline the organization.

The Division's new organization, which became effective on January 1, 1999, aims to cut operating costs and capital expenditure, and further reduce staff numbers.
As at December 31, 1998, the headcount stood at 51,928, down by around 2,400 on the previous year. Another 2,560 staff have left the Division since January 1, 1999.
1999 will see the Division develop in accordance with the guidelines established by legislation relating to deregulation of the electricity market. The relevant Decree foresees the creation of at least two separate companies to manage distribution and sales to tied customers, and sales to eligible customers. Secondly, in order to rationalize the distribution of electricity, a single license will be issued for each municipality, involving the merger of distributors serving overlapping areas. The mergers are expected to take place via mutual agreement. However, should no agreement be reached, municipal distribution companies, serving at least 20% of customers in the municipality concerned, may request that Enel sell its distribution activities to them.

Customer services

During 1998 the Division met the standards laid down in the Electricity Service Charter in 99.5% of cases, continuing the positive performance seen in 1997. An analysis of the performance over the year shows that the products and services supplied by Enel almost completely satisfied the parameters established in the Charter.
The surveys carried out show an improvement of more than 5% in global customer satisfaction with respect to 1997, partially thanks to initiatives such as the "Nuova Bolletta" (the new billing format), that introduced simplified language and content, and "Contowatt" (domiciled banking), the new service allowing bills to be paid by direct debit. During the year the Company applied to the Authority to re-introduce contracts based on 4.5 kW for household use. The target customer is represented by household users with contracts providing up to 3 kW and who use large amounts of electricity.
The principal aims of the proposed change are:

- improving the quality of the service offered, reducing the problems occurring in the event of insufficient availability of power;
- allowing customers greater flexibility in the use of electrical appliances;
- increasing electricity consumption and sales.

Extending the range of services

In view of market deregulation, and the consequent need to provide customers with increasingly flexible and competitive services, the Distribution Division has prepared a series of initiatives targeted at "large customers". Such initiatives are based on the offer of personalized contracts, and a review of the conditions applying to meter readings and billing for medium- to high-voltage customers with differentiated hours of use.
Moreover, Enel intends to exploit previously neglected market niches, such as "services beyond the meter", directed primarily at manufacturing industry and large service companies.

With this aim in mind, the Company established Seme Servizi manutenzione elettrica SpA in March 1999.
Again within the context of Enel's strategy of exploiting new segments of the market, July 1998 witnessed the incorporation of So.l.e. Società luce elettrica SpA. The company's purpose is to operate public lighting equipment and other connected services. Particular attention is to be focussed on lighting that takes account of cities' environmental, artistic and social aspects.

Electricity sales

During 1998 Enel sold a total of 226.2 billion kWh, 3.1% up on 1997.
The following table shows the number of customers served and the quantity of electricity sold during 1998, excluding supplies to Italian State Railways and exports, compared with the corresponding figures for 1997, and broken down by region and geographical area.

	Number of customers '000s		Electricity sold(*) in millions of kWh	
	as at 12.31.**1998**	**1998-1997**	**1998**	**1998-1997**
Piemonte	2,371	+0.8%	19,605	+3.4%
Valle d'Aosta	113	+0.8%	819	+2.2%
Liguria	1,188	+0.6%	5,384	+1.8%
Lombardia	4,229	+1.3%	47,161	+5.4%
Trentino Alto Adige	279	+1.4%	3,328	+1.4%
Veneto	2,224	+1.4%	21,429	+4.1%
Friuli Venezia Giulia	539	+1.4%	6,736	+4.1%
Emilia Romagna	2,175	+1.2%	18,395	+4.6%
Northern Italy	13,118	+1.1%	122,857	+4.4%
Toscana	2,103	+1.0%	15,472	+2.6%
Marche	784	+1.6%	5,176	+5.1%
Umbria	413	+1.6%	4,960	+1.0%
Lazio	2,219	+1.1%	16,171	+1.8%
Central Italy	5,519	+1.2%	41,779	+2.4%
Abruzzo	746	+1.0%	4,909	-1.9%
Molise	198	+1.0%	1,108	+4.4%
Campania	2,518	+0.4%	13,499	+1.3%
Puglia	2,115	+1.2%	9,579	+2.8%
Basilicata	334	+1.2%	1,932	+0.8%
Calabria	1,158	+1.6%	4,314	+1.4%
Southern Italy	7,069	+0.9%	35,341	+1.3%
Sicilia	2,741	+0.8%	12,684	+2.8%
Sardegna	896	+1.3%	8,533	-0.7%
The islands	3,637	+0.9%	21,217	+1.4%
TOTAL	29,343	+1.1%	221,194	+3.2%

(*) Excludes supplies to Italian State Railways and exports.

The distribution network

Investment in the distribution network during 1998 totaled Lit. 3,007 billion (Lit. 3,091 billion in 1997). Lit. 573 billion was invested in high-voltage lines, Lit. 1,181 billion in medium-voltage lines and Lit. 1,253 billion in the low-voltage network. The cost of new plant was reduced thanks to the continuing decline in the unit price of supplies, combined with further standardization of components and a review of capital expenditure.

The following new plant entered service during 1998:

	Lines	Substations	
	km	no.	Transformer power MVA
High-voltage:			
Lines	805	-	-
Primary substations	-	175	3,106
Medium-voltage:			
Lines	8,364	-	-
Secondary substations and transformers	-	12,377	1,485
Low-voltage:			
Lines	9,018	-	-

Total distribution capacity at the end of 1998 was as follows:

HV lines: 32,217 km, including 539 km of cable;
Primary substations: 1,826 with an MVA of 84,656;
MV lines: 325,085 km, including 109,056 km of cable;
Secondary substations: 398,472 with an MVA of 62,681;
Satellite stations and MV sections: 495 with an MVA of 2,261;
LV lines: 693,326 km, including 545,240 km of cable.

The pursuit of high environmental standards continued through improvements to the quality of services and measures aimed at reducing the impact of the network, through the use of underground and insulated aerial cables for low- and medium-voltage lines. Moreover, all new lines, including above all those carrying high-voltage supplies, have been routed so as to reduce the impact on the surrounding environment to a minimum.
The results achieved may be summarized as follows:
- the low-voltage network increased, with respect to 1997, by approximately 13,700 km (including around 7,700 km of underground cable and about 6,000 of insulated aerial cable), whilst the amount of unprotected cable was reduced by 5,400 km;
- medium-voltage cable increased by around 3,600 km (including about 3,100 km of underground cable and approximately 500 of aerial cable), whilst the amount of unprotected cable fell by around 400 km.

The installation of new plant will follow the previously mentioned guidelines:
- the use of underground and insulated aerial cables for the transmission of low-voltage (100%) and medium-voltage (not less than 60%) lines;
- the detailed study of routes and the adoption of advanced technology for high-voltage lines, in order to minimize environmental impact, from the point of view of the space occupied, and reduce the general public’s exposure to electromagnetic fields.

Exploitation of the Enel Group's capabilities in its traditional areas of activity will enable it to develop new initiatives providing significant prospects for future growth and earnings in sectors such as telecommunications, estate management, engineering and water.

Telecommunications 1998 witnessed the start-up of WIND Telecomunicazioni SpA, Italy's first provider of integrated fixed and mobile telephone services. Enel holds 51% of the new company, which is a joint venture with France Télécom and Deutsche Telekom. Early 1998 was taken up with obtaining the necessary licenses and authorizations. Indeed, in February 1998, WIND obtained a license to install a fixed-link network providing voice transmission services, together with authorization for switched data transmission and the simple sale of network capacity. In April the company was awarded an individual license for the installation and supply of a public telecommunications network within Italy. Finally, in June WIND won the license to be Italy's third mobile telephone operator. At the same time, the agreement between WIND and Enel, regarding the rental of fiber-optic cable owned by the latter (the E-net project) received approval. Authorization was also granted for WIND to provide services to its shareholders.

During the second half of the year, WIND concentrated its attention on developing the required infrastructure, completing agreements with other telecommunications providers, setting up its organizational structure and marketing its services. The number of staff employed by the company stood at 1,272 at the end of 1998.

The mobile network was completed following interconnection agreements with Italy's major telephone companies (Telecom Italia, Telecom Italia Mobile and Omnitel) with regard to domestic services, and a roaming agreement with Telecom Italia Mobile.

Commercial services to corporate customers were launched in December 1998, whilst from March 1, 1999, WIND offers both fixed and mobile telephony to private users.

The company is marketing "a new way of communicating" based on three guiding principles:

- the establishment of a new form of relationship with customers based on "transparency";
- the offer of conditions that are "simple for the customer to understand";
- the full integration of fixed and mobile services.

In March 1999 Enel completed the conferment of its telecommunications infrastructure and data transmission and mobile networks, currently used by the Company as a private system, to WIND. At the same time as the spin-off took place, Enel and WIND Telecomunicazioni SpA signed a seven-year contract for the outsourcing of telecommunications services.

The traffic and services currently operated by Enel's own network will be progressively transferred to WIND, allowing Enel to benefit from a new and more advanced service.

Estate management and General services The purpose of the Estate management and General services Unit, which will be spun off to SEI SpA, is to exploit the huge amount of real estate owned by the Enel Group and supply services to both the Group and external customers. The Unit is developing capabilities in property management, stock management and logistics, vehicle fleet management and other areas such as catering.
The Unit's primary activities during 1998 involved:
- a review of the space used by the Group, resulting in around an 11% saving in rentals and the sale of real estate no longer of use to Enel for around Lit. 140 billion;
- initiatives aimed at increasing income from rents, which rose around 20%.

The Unit also proceeded to review contracts for cleaning, security and maintenance, achieving a saving of around 8%.
During 1998 outsourcing of the Group's fleet of commercial vehicles, numbering approximately 40,000, was completed throughout Italy. A review of the number and type of vehicles required by the Group led to a reduction in the fleet and unit cost savings.
1998 also saw the drawing up of a new system of stock management for materials, which will involve the establishment of a centralized unit to be responsible for the management of supply contracts for the Distribution Division. The transport of materials is to be completely outsourced.

Engineering and Contracting The Unit's current activities are directed towards fulfilling the ambitious goal of marketing services relating to the construction and operation of large-scale energy infrastructure, thus far used only for internal purposes, to outside customers. The project's success depends on a radical review of the existing cost structure, a reorganization of the Unit's operating processes and the acquisition of overseas experience.

From a strategic point of view, the Unit aims to increasingly fulfil the role of EPC (Engineering Procurement Construction) contractor, both on behalf of Enel and for selected projects to be carried out for Italian and overseas customers. The strategy will require constant efforts to increase competitiveness and efficiency, in order to attract a greater proportion of orders from outside customers.

BOT (Build Operate and Transfer) or similar initiatives are also to be pursued, following prior assessment of the profit potential and financial feasibility of projects.

During 1998, the Unit proceeded to provide construction services on a turnkey basis, with particular attention directed towards improving operating controls.

During the year, the Unit was awarded its first EPC contract from an external customer. The contract, to be carried out in consortium with Ansaldo, involves the upgrading of AEM's Cassano d'Adda power station.

Consultancy was also provided during the start-up phase for two power stations in Libya, whilst the Unit also furnished on-site engineering and consultancy for a power station in Morocco.

Work carried out on behalf of Enel's Generation Division involved the start-up of a new 660 MW thermal unit, work on reducing the environmental impact of thermal units producing a total of 6,020 MW, the start-up of a 240 MW turbogas unit and the installation of 2 belts for the transport of coal. The Unit also activated hydroelectric units producing a total of 367 MW.

With regard to Transmission, the Unit completed the installation of fifteen 380 kV stations, eight 380 kV transmission lines and one 220 kV line, covering a total distance of 355 km. Work on the line linking Italy and Greece went ahead, as described in the section dealing with the Transmission Division.

Water During 1998 Enel completed preparation of its strategic plan for the "Water market", which will see all the Group's related capabilities and operations concentrated in one business unit. The new unit will absorb ISMES SpA hydroelectric engineering activities and the hydraulics section of the Research Unit. The objective is to develop a presence in the market for large-scale infrastructure for the collection and transport of water to be sold to water distribution companies. The Group thus aims to enter a market with significant potential following implementation of the so-called Galli Law.

1999 will be dedicated to getting the new business off the ground and developing the order book for services to the hydroelectric and water sectors in Italy and overseas. The new business unit aims to play a leading role in a market that is expected to witness strong growth over the next 10 years.

The decree dealing with reorganization of the electricity industry has attributed responsibility for the decommissioning of nuclear plants and the disposal of nuclear fuel to one company, allowing Enel to dispose of its Nuclear plant management Unit.
The spin-off is to be completed by September 30, 1999 and the shares will be transferred to the Treasury.
From an operational point of view, 1998 saw the Unit focus on the following activities:
- ensuring the safety of the Trino, Caorso, Latina and Garigliano nuclear plants, in order to guarantee the conventional and radiological protection of workers and the local population;
- the pursuit of its long-term plan for the decommissioning of nuclear plants and the disposal of nuclear fuel;
- the development of services provided to outside customers.

Ensuring the safe conservation of the plants is currently the Unit's primary activity.
The most important aspect of 1998 was the completion of the Group's withdrawal from NERSA, following the French government's decision to close the Creys-Malville Plant. Enel exercised its option to effect early withdrawal, ahead of the original date at the end of the year 2000. The Group's holding in the venture was sold to Electricité de France (EdF).
The fuel used in the NERSA venture, which is currently stored at the Creys-Malville Plant, is to be subsequently transported to Italy in order to be placed in storage at a national site. The agreement involves the transfer of all related rights and obligations to EdF. This includes the expenses relating to the post-operative phase and the decommissioning of the plant.

As at December 31, 1998, the total headcount of Group employees was 84,938.
The following table shows a breakdown by category, compared with December 31, 1997:

Number of employees

	as at 12.31.**1998**		as at 12.31.**1997**	
Managers	842	1.0%	1,045	1.2%
Supervisors	5,334	6.3%	5,429	6.1%
White-collar	46,020	54.2%	47,832	53.8%
Blue-collar	32,742	38.5%	34,651	38.9%
Total	84,938	100.0%	88,957	100.0%

The decrease of 4,019, representing a 4.5% cut in the Group's workforce, was achieved via the restructuring program and the offer of early retirement in previous years. The Parent Company's headcount was further reduced with effect from January 1, 1999, following the retirement of 3,663 staff, who took advantage of the above early retirement package. The number of employees by business segment breaks down as follows as at December 31, 1998:

Number of employees

	as at 12.31.**1998**		as at 12.31.**1997**	
Corporate	1,031	1.2%	1,150	1.3%
Generation Division	20,154	23.7%	20,928	23.5%
Transmission Division	3,860	4.5%	4,003	4.5%
Distribution Division	51,928	61.1%	54,298	61.0%
Estate management and General services	1,516	1.8%	1,549	1.7%
Telecommunications	740	0.9%	783	0.9%
Information technology	1,073	1.3%	1,189	1.3%
Engineering and Contracting	1,934	2.3%	2,193	2.5%
Research	1,298	1.5%	860	1.0%
Nuclear plant management	508	0.6%	501	0.6%
Temporary employment and consolidated companies	896	1.1%	1,503	1.7%
Total	84,938	100.0%	88,957	100.0%

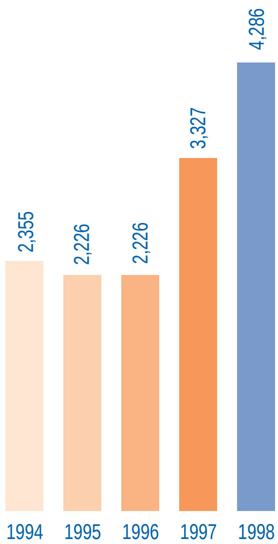
Staff employed by the Telecommunications Unit will either be transferred to WIND or seconded to the new subsidiary as part of the previously mentioned outsourcing agreement. During 1998, industrial relations focussed on the renegotiation of the pay agreement contained in Enel's Collective labor contract. The new agreement, which relates to 1998, resulted in the allocation of Lit. 73 billion to be paid as a "lump-sum".
The negotiations also reached agreement regarding financing for the "Pension Fund for Enel Group employees" (FOPEN), which was established following the subsequent agreement dated December 3, 1998. Finally, the Collective labor contract for Enel employees, dating back to April 1996, expired on December 31, 1998.

The following table provides a summary of consolidated results for 1998, obtained following a reclassification of the Income Statement prepared according to Italian law in order to reflect international practice:

In billions of Lire

	1998	1997	1998-1997	
REVENUES FROM SALES AND SERVICES	37,815	37,791	+24	+0.1%
- Other income and revenues	1,973	2,118	-145	-6.8%
- Capitalized costs and expenses	1,924	2,009	-85	-4.2%
TOTAL REVENUES	41,712	41,918	-206	-0.5%
- Fuel consumption	(6,523)	(7,618)	-1,095	-14.4%
- Electricity purchases	(6,195)	(5,959)	+236	+4.0%
- Other external supplies	(4,382)	(4,798)	-416	-8.7%
VALUE ADDED	24,612	23,543	+1,069	+4.5%
- Personnel	(8,025)	(8,831)	- 806	-9.1%
GROSS OPERATING INCOME	16,587	14,712	+1,875	+12.7%
- Amortization and depreciation	(6,037)	(5,696)	+341	+6.0%
- Provisions and write-downs	(946)	(327)	+619	...
OPERATING INCOME	9,604	8,689	+915	+10.5%
- Interest income (expense)	(1,480)	(2,197)	-717	-32.6%
- Write-downs of investments	(1)	(176)	-175	...
INCOME BEFORE EXTRAORDINARY ITEMS AND INCOME TAXES	8,123	6,316	+1,807	+28.6%
- Extraordinary income (expense), net	(321)	95	-416	...
INCOME BEFORE INCOME TAXES	7,802	6,411	+1,391	+21.7%
- Income taxes	(3,519)	(3,088)	+431	+14.0%
- Minority interest	3	4	-1	-25.0%
NET INCOME	4,286	3,327	+959	+28.8%

Net income
In billions of Lire



The Enel Group's net income for 1998 amounted to Lit. 4,286 billion, up 28.8% on the previous year (Lit. 3,327 billion). This continued the trend that has seen the Group's operating result almost double in the last three years (in 1996 net income totaled Lit. 2,226 billion). The ROE for 1998 rose to 12.5% (against 10.6% in 1997).

The Lit. 959 billion improvement in net income can be summarized as follows:

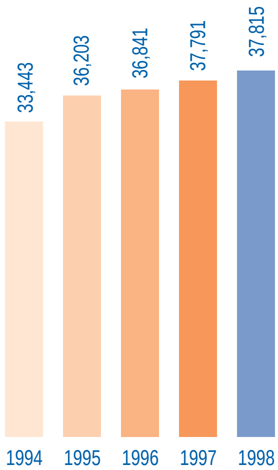
In billions of Lire

- increase in operating income	915
- increase in net interest income (expense)	892
- extraordinary items	(416)
Increase in income before income taxes	1,391
- increase in income taxes	(431)
- minority interests	(1)
Increase in net income	959

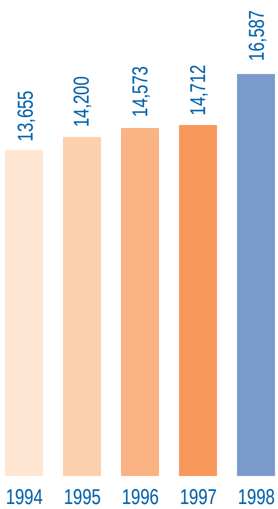
The operating results show revenues from sales and services in line with the previous year, with Lit. 37,815 billion against the Lit. 37,791 billion of 1997. However, the year witnessed the contrasting performances of two revenue components:
- tariff charges rose approximately Lit. 680 billion, due to the greater quantity of electricity sold (up 3.1%), as there was no change in the tariffs applied;
- contributions from the Equalization Fund were down around Lit. 650 billion, due to reduced grants for thermal generation, as a result of the decline in fuel prices. The cut in contributions for electricity imports (equal to the decrease in grants for thermal generation) resulted in a net charge of more than Lit. 660 billion.

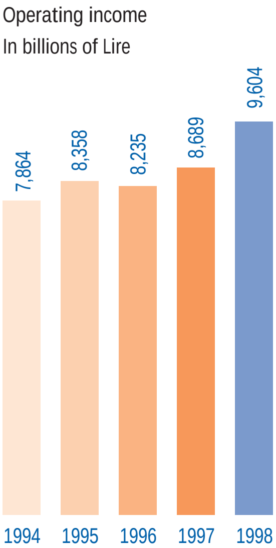
The Lit. 145 billion decrease in *other income and revenues* was due to Enel's withdrawal from the NERSA venture, which led to a Lit. 292 billion cut in revenues, compensated for by an equal reduction in costs. Other income therefore rose Lit. 147 billion.
Gross operating income rose 12.7% to Lit. 16,587 billion, accounting for 44% of revenues from sales and services, and reflecting the sharp decline in operating costs.
In particular:
- *fuel consumption* fell Lit. 1,095 billion (14.4%) due to the above-mentioned fall in fuel prices and the use of a more economical mix of fuels, made possible by environmental improvements, greater generating efficiency and a review of logistics and supply conditions;
- *purchases of electricity* from other producers rose Lit. 236 billion (4.0%) mainly due to increased purchases of subsidized electricity from domestic producers (in accordance with CIP Directive 6/92), which rose 4,822 GWh, equal to Lit. 211 billion). The increase in electricity purchased from overseas producers (up 1,867 GWh, equal to Lit. 26 billion) relates to increased spot market purchases at particularly advantageous prices. The policy applied to electricity imports and the renegotiation of long-term supply contracts allowed for an average unit cost saving of Lit. 2.5/kWh with respect to 1997;
- *labor costs* fell Lit. 806 billion (9.1%) primarily due to the reduction in the average headcount, which declined by 4,399, and the abolition of National Health Contributions (following the introduction of IRAP). The latter provided savings of around Lit. 460 billion;
- the cost of *other external supplies* declined Lit. 416 billion, as a result of withdrawal from the NERSA venture and the Group's restructuring.

Revenues from sales and services
In billions of Lire



Gross operating income
In billions of Lire





The significant increase in gross operating income, which rose Lit. 1,875 billion, was partially absorbed by higher charges for *amortization, depreciation and provisions* (approximately Lit. 960 billion). This was due to the amount of new plant entering service over the last two years, the need to cover various future liabilities and charges (technical risks linked to the operation of plant, litigation and disputes, etc.) and provisions to the supplementary pension fund.

Operating income rose 10.5% (Lit. 915 billion) to Lit. 9,604 billion, compared to Lit. 8,689 billion in 1997. The profit margin on sales increased to 25.4% (23.0% in 1997), whilst the return on invested capital reached 12.3% (compared to 10.8% in 1997).

Interest coverage rose to 6.5 compared to around 4 in 1997.

The improvement in the operating performance was accompanied by a decline in *net interest expense*, which fell Lit. 717 billion (down 32.6% with respect to 1997).

This was a result of the reduction in the Group's debt (down to Lit. 8,628 billion) and a decline in the cost of borrowing.

All debt management ratios showed significant improvement, with net financial expense as a percentage of revenues from sales and services down to 3.9% from the 5.8% of 1997.

Income before extraordinary items and income taxes rose Lit. 1,807 billion (28.6%), and as a percentage of revenues from sales and services reached 21.5% (16.7% in 1997).

Extraordinary items resulted in a loss of Lit. 321 billion, despite the recognition of deferred tax assets totaling Lit. 588 billion, in accordance with the newly adopted accounting principle regarding income taxes. In 1997, extraordinary gain net totaled Lit. 95 billion, following adjustment of the provisions for deferred taxes to reflect new tax rates.

Income taxes (up Lit. 431 billion due to the increase in taxable income) raise to 48.2% as a proportion of pre-tax income (against the 45.1% of 1997).

Cash flows generated during 1998 and the related uses of funds are shown in the following Statement of Cash Flows:

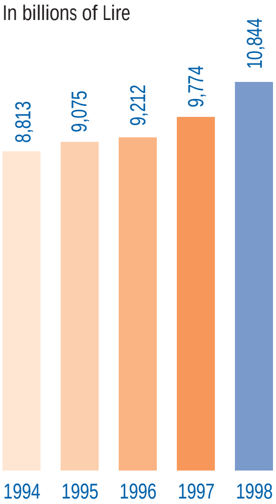
In billions of Lire

	1998	1997
A) NET SHORT-TERM DEBT (-) CASH AND CASH EQUIVALENTS (+), BEGINNING OF YEAR	(788)	(556)
B) CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
- Net income	4,286	3,327
- Amortization and depreciation (1)	6,079	5,738
- (Gain) or loss on sale of assets	50	51
- (Revaluation) or write-down of fixed assets	19	308
- Net change in provisions for employee severance indemnities	(283)	(81)
- Net change in other provisions	693	431
Net income and non-cash items	10,844	9,774
Changes in components of working capital:		
- (Increase) Decrease in current receivables	3,483	(441)
- (Increase) Decrease in inventories	611	532
- Increase (Decrease) in trade payables and other accounts payable	458	(1,455)
- (Increase) Decrease in other components of working capital	(21)	(24)
Total	4,531	(1,388)
Total B) - Cash flows provided by operating activities	15,375	8,386
C) CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Investment in fixed assets:		
- Intangible assets	(49)	(28)
- Capital expenditure	(5,871)	(6,466)
- Equity investments	(150)	941
- Proceeds from sale or redemption value of fixed assets	267	(8)
- Other	(11)	69
Total C)	(5,814)	(5,492)
D) CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES		
- Issuance of long-term debt	2,396	1,084
- Repayment of long-term debt (2)	(8,123)	(3,006)
- Change in minority interest	(11)	(4)
- Dividends paid	(922)	(1,200)
Total D)	(6,660)	(3,126)
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	2,901	(232)
F) SHORT-TERM DEBT (-) CASH AND CASH EQUIVALENTS (+), END OF YEAR (A+E)	2,113	(788)

(1) Includes amortization of intangible assets totaling Lit. 42.7 billion charged to extraordinary expense.

(2) Net of Enel's bonds held in the portfolio and other minor changes.

Net income and non-cash items
In billions of Lire



The improvement in the operating results for 1998 corresponded with an increase in cash flows generated, further reinforcing the Group's balance sheet. The increase in net income resulted in a Lit. 10,844 billion rise in cash flow (net income and non-cash items), representing an increase of 11% with respect to 1997. This was almost double capital expenditure. This was accompanied by a Lit. 4,531 billion reduction in working capital, due primarily to the collection of amounts due from the Equalization Fund (approximately Lit. 3,400 billion), and the actions taken to reduce stocks and other components of working capital.

As a result *cash flows provided by operating activities* amounted to Lit. 15,375 billion against the Lit. 8,386 billion of 1997, enabling the Group to finance investment of Lit. 5,814 billion (up Lit. 322 billion with respect to 1997), pay a dividend of Lit. 922 billion and reduce debt by Lit. 8,628 billion.

Long-term debt fell Lit. 5,727 billion, as a result of repayments totaling Lit. 8,123 billion and the issuance of new debt amounting to Lit. 2,396 billion. This took place as a result of the policy of exploiting opportunities offered by the fall in interest rates, effecting early repayment of loans or substituting costlier debt with cheaper borrowing.

The above policy led to the October issue of ten-year bonds denominated in Euro worth 1 billion Euro, bearing interest at 4.5%. The operation saw Enel return to playing a prominent role on the Euro-bond market.

Following the payment of dividends totaling Lit. 922 billion, the residual liquidity was used to turn the short-term debt of Lit. 788 billion of 1997 into cash and cash equivalents of Lit. 2,113 billion as at December 31, 1998. This allowed Enel to exercise call options on bonds totaling Lit. 2,000 billion during early 1999.

The Group's financial position as at December 31, 1998, as compared with the end of 1997, is shown below:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
A. Long-term debt:			
- loans	9,943	15,786	-5,843
- bonds	16,951	16,387	+564
Total	26,894	32,173	-5,279
Provisions for exchange rate fluctuations [1]	-	357	-357
Bonds in the portfolio and other items	(234)	(143)	-91
Total	26,660	32,387	-5,727
B. Short-term debt (Cash and cash equivalents):			
- net amount due to (from) banks	(1,420)	788	-2,208
- securities and short-term investment	(693)	-	-693
Total	(2,113)	788	-2,901
Total (A+B)	24,547	33,175	-8,628

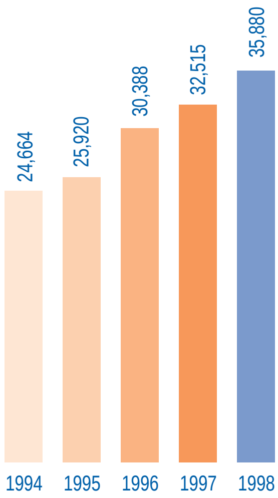
[1] Foreign currency balances as at 12.31.1998 have been directly adjusted to reflect year-end exchange rates.

The Group's Balance Sheet as at December 31, 1998, reclassified and compared with December 31, 1997, is shown in the following table:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
A. Net fixed assets:			
- tangible assets	75,687	76,151	-464
- intangible assets	121	159	-38
- investments and other assets:			
- items relating to nuclear-related charges	1,786	1,993	-207
- other	1,513	1,157	+356
Total	79,107	79,460	-353
B. Net working capital:			
- inventories	1,105	1,716	-611
- trade receivables	5,328	5,283	+45
- net credit due from Equalization Fund	1,029	4,463	-3,434
- other assets	1,076	1,618	-542
- trade payables	(4,957)	(5,348)	+391
- advances received	(1,886)	(1,866)	-20
- payables to social security	(1,101)	(503)	-598
- other liabilities	(4,496)	(4,034)	-462
Total	(3,902)	1,329	-5,231
C. Invested capital (A+B)	75,205	80,789	-5,584
D. Provisions:			
- employee severance indemnities and pensions	(6,454)	(7,268)	+814
- income taxes	(4,544)	(4,451)	-93
- other	(3,767)	(3,355)	-412
Total	(14,765)	(15,074)	+309
E. Net invested capital (C+D)	60,440	65,715	-5,275
F. Shareholder's equity	35,880	32,515	+3,365
G. Minority interest	13	25	-12
H. Debt	24,547	33,175	-8,628
I. Total	60,440	65,715	-5,275

Shareholder's equity
In billions of Lire

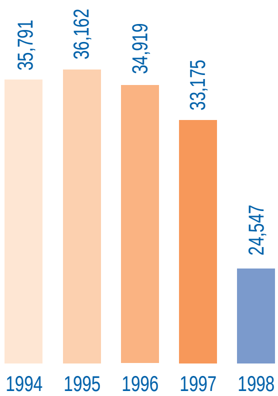


Net fixed assets decreased by Lit. 353 billion, due primarily to the difference between total amortization and depreciation and capital expenditure. Investments and other assets, other than credits due from the Equalization Fund to cover nuclear-related charges, rose Lit. 356 billion primarily due to subscription of the capital increase carried out by WIND.

Net working capital decreased by Lit. 5,231 billion mainly due to the collection of amounts due from the Equalization Fund, as mentioned above, and a Lit. 611 billion reduction in inventories. The increase in amounts due to social security institutions resulted from the transfer therein of a part of the supplementary pension fund following the establishment of FONDENEL.

Net invested capital stood at Lit. 60,440 billion, 41% covered by debt and 59% by shareholder's equity, compared to the 50-50 ratio of December 31, 1997. The debt ratio therefore fell to 0.7 as at December 31, 1998 from the 1.0 of December 31, 1997.

Debt
In billions of Lire



The most important events affecting the Group's activities since the end of 1998 are summarized below.

Reorganization of the electricity industry

In February 19, 1999, the Council of Ministers approved the decree applying EU Directive 96/92 regarding deregulation of the electricity market. The decree became law on April 1, 1999.

The legislation deregulates generation, imports, exports and the purchase and sale of electricity (in accordance with the obligations of a public service provider). Although the above activities are separate, the legislation allows them to be carried out by one company, on condition that administrative and accounting unbundling takes place in accordance with the terms laid down by the Authority. In the case of Enel, the Decree requires the Company to create separate companies to operate generation, transmission, distribution and sales to "eligible" customers. Such customers are defined as those having an annual consumption, including electricity produced by the customers themselves, of over 30 million kWh. The definition also includes consortia whose members annually consume at least 2 million kWh individually. The above thresholds are scheduled to decrease to 20 and 9 million kWh in January 2000 and 2002, respectively.

The transmission and dispatching of electricity and the management of the national grid will be licensed to the "Independent System Operator", which is to be spun-off from Enel and whose shares will be assigned to the Treasury free of charge. The Operator will negotiate standard agreements with the owners of the various networks (Enel, municipal companies and others) regarding maintenance, development of the grid and inter-connections.

The Operator will be required to establish a new company (the so-called "Sole Purchaser"), in order to guarantee tied customers a continuous, safe and efficient supply of electricity. On the basis of annual projections regarding consumption, the Sole Purchaser will negotiate purchase contracts with generators and sales contracts with distributors, ensuring a single tariff to tied customers.

Free market transactions will initially be in the form of direct bilateral contracts between operators and the exchange of the related electricity will take place in accordance with the principle of economic dispatching. By January 2001, an "electricity exchange" is to be established. The "exchange" will be open to all producers and eligible customers. From this point on dispatching will take place in accordance with economic criteria, with the exception of electricity generated using renewable energy sources and cogeneration, where the electricity produced will be given dispatching priority.

As regards generation, as of January 1, 2003, no generator (in particular Enel) will be allowed to produce more than 50% of all the electricity produced in and imported by Italy. As a result of this restriction, by the same date (with the possibility of a one-year extension) Enel will be required to sell off no less than 15,000 MW of its generating capacity. In this regard, Enel has four months from the date the legislation becomes law to draw up a plan for the sale of the related plants. The plan will then be included in a Council of Ministers' decree, proposed by the Treasury Minister in collaboration with the Industry Minister.
As regards distribution, distributors will be obliged to connect all those who request connection to their networks, without compromising the continuity of the service. Only one distribution license will be granted for each municipality. Should there be more than one existing distributor, the legislation requires that they agree a merger. Such distributors are to take the necessary initiatives in order to prepare for the merger and submit the relevant proposal to the Industry Minister by March 31, 2000. The Minister is then required to take a decision regarding the merger within 60 days. In the absence of such a proposal, or in the event that the Industry Minister withholds his approval, municipal distribution companies, serving at least 20% of customers in the municipality concerned, may request that Enel transfer its distribution activities to them. Municipal distributors having no fewer than 100,000 customers may request the Industry Minister to approve an agreed merger with other distributors operating in adjoining municipalities. In the new context, Enel will carry out strategic planning and coordination for the companies it controls. The activities carried out by the different electric companies in the Enel Group (including those already incorporated and those to be incorporated) relate to generation, distribution and sales to tied customers, sales to eligible customers and ownership of the transmission network (including its development and maintenance).

Regulation of transmission

Authority Resolution 13 of February 18, 1999 has established the tariffs to be charged for the transmission of electricity. The Resolution identifies the various components of the tariff to be paid in return for use of the national grid. One component is planned to cover power costs, regardless of the distance between the site of production and the site of consumption. Other components refer to a fee for using the system, the so-called ancillary services such as dynamic services, power switching services, dispatching, monitoring and the power reserve. As well as the power component and the fee for using the system, additional components cover the so-called nuclear-related charges and the cost of incentives to producers of electricity using renewable energy sources.

Spin-off of the Telecommunications Unit

As previously mentioned, in March 1999 a meeting of Enel's shareholder adopted a resolution regarding the spin-off of the Group's Telecommunications Unit to WIND Telecomunicazioni SpA. The value of the spin-off, as confirmed by expert appraisal, is Lit. 587 billion. This figure relates almost entirely to the value of tele-transmission plant and equipment (telecommunications cable, radio-base stations, radio relay systems, switching equipment, telephone exchanges, etc.) previously conferred to the Telecommunications Unit. The spin-off does not include the fiber-optic network installed alongside power lines, which are covered by a separate rental contract between Enel and WIND.

At the same time as the spin-off, the two parties agreed an outsourcing contract, by which WIND will provide Enel Group companies with all the telecommunications services necessary to their operations.

On March 25, 1999, a meeting of the shareholders of WIND Telecomunicazioni SpA approved a capital increase of Lit. 1,151 billion, of which Lit. 587 billion corresponds to the value of the spin-off and Lit. 564 billion was to be paid in by Enel's partners, Deutsche Telekom and France Télécom (whose shares are held by "DT/FT/Italian Holding Gmbh").

Outlook

1999 promises to be a crucial year for the Group. As a result of extremely important external events the process of change will be given new and significant impetus.

On the external front, the above-mentioned Decree has prepared the way for a free market that will balance the need for efficiency and competition with safeguards for the value of existing operators. On the one hand, the thresholds applied to eligibility will enable Italy to have one of the most competitive industries within the EU. On the other, the early introduction of an electricity pool (by 2001) will stimulate existing operators to adopt new technologies, contributing to an increase in the value of the companies concerned.

The potential for Enel to play a leading role in the deregulated market will permit the company to build on the assets, resources and capabilities acquired over 35 years of providing a public service.

The awaited review of the tariff system, due to be completed by the summer, will provide certainty and stability in the market and, above all, transparency with regard to the price of electricity. As already seen in relation to the new tariffs to be applied to transmission, the identification of the costs borne by the tariff system, and their consequent transfer to all customers (tied and eligible), will remove the charges that weigh inappropriately on Enel's economic performance.

Transparent pricing and market competition will provide a boost for the electricity industry, increasing electricity's share of the energy market with respect to other sources, in line with other major industrialized nations.

Such external changes require Enel to accelerate the process of repositioning itself. Therefore, on the internal front, 1999 will be significant for two main reasons:

- the implementation of further actions aimed at reducing operating costs and of a review of capital expenditure, with the aim of obtaining a further improvement in the profitability of the electricity business in 1999. Planned capital expenditure of Lit. 6,400 billion will include around Lit. 3,500 billion to be spent on improving distribution and about Lit. 2,000 billion for investment in generating plant;
- reorganization of the Group in order to transform Enel into an industrial holding company. The transformation of the Divisions and Units into companies will result in a more streamlined organization, focussing on specific businesses and capable of maximizing cost-efficiency. The headcount, for example, is due to fall by at least 6,000 with respect to 1998.

1999 should therefore see a further improvement in the Enel Group's operating results, matching the performances seen in recent years.
Finally, from a financial point of view, the year should witness strengthening of the balance sheet, as a result of a further reduction in debt. This will lead to a cut in interest expense and an increase in profitability.

Consolidated Balance Sheet

In billions of Lire		Sub-total	Total		Sub-total	Total
Assets		as at 12.31.**1998**			as at 12.31.**1997**	
A) UNPAID CALLED-UP SHARE CAPITAL						
B) FIXED ASSETS						
I. Intangible assets						
6) Work in process and advances		31.2			40.6	
7) Other		89.8			118.7	
			121.0			159.3
II. Tangible assets						
1) Property		14,450.9			14,291.2	
2) Plant and machinery		52,733.0			49,349.3	
3) Industrial and commercial equipment		288.6			315.2	
4) Other		472.2			578.0	
5) Under construction		7,742.5			11,617.0	
			75,687.2			76,150.7
III. Investments and other long-term assets						
1) Equity investments in:						
a) unconsolidated subsidiaries		308.4			6.3	
b) associated and other companies		10.3			11.0	
		318.7			17.3	
	Due within 12 months			Due within 12 months		
2) Receivables:						
d) third parties	193.1	1,193.6		193.9	1,138.9	
e) Electricity Industry Equalization Fund as reimbursement of nuclear-related charges	969.4	1,786.3		178.8	1,993.3	
		2,979.9			3,132.2	
3) Other securities		1.3			10.9	
			3,299.9			3,160.4
Total fixed assets			79,108.1			79,470.4
C) CURRENT ASSETS						
I. Inventories						
1) Materials and fuel		1,070.5			1,643.7	
3) Contract work in progress		33.8			36.5	
5) Advances		0.3			35.7	
			1,104.6			1,715.9
	Due beyond 12 months			Due beyond 12 months		
II. Receivables						
1) Trade	461.6	5,328.4		453.6	5,283.3	
2) Unconsolidated subsidiaries		57.1				
3) Associated companies		2.1			7.4	
5) Other	10.1	793.2		2.0	1,096.4	
6) Electricity Industry Equalization Fund		3,558.9			6,835.4	
			9,739.7			13,222.5
III. Short-term investments						
6) Marketable securities		166.2			136.2	
7) Time deposits		690.8				
			857.0			136.2
IV. Cash and cash equivalents						
1) Bank and post office deposits		2,162.0			385.4	
3) Cash and notes on hand		1.4			1.6	
			2,163.4			387.0
Total current assets			13,864.7			15,461.6
D) ACCRUED RECEIVABLES AND PREPAID EXPENSES						
Accrued receivables			41.0			29.3
Prepaid expenses:						
- issue discounts		17.1			25.8	
- other		234.9			180.1	
			252.0			205.9
Total accrued receivables and prepaid expenses			293.0			235.2
TOTAL ASSETS			93,265.8			95,167.2

In billions of Lire		Sub-total	Total		Sub-total	Total
Liabilities and shareholder’s equity		as at 12.31.**1998**			as at 12.31.**1997**	
A) SHAREHOLDER'S AND MINORITY EQUITY						
I. Share capital			12,126.2			12,126.2
IV. Legal reserve			250.3			201.5
VII. Other reserves:						
Shareholder contribution for future capital increases		1,922.0			1,922.0	
Restatement reserve (Law 292/93)		10,607.2			10,607.2	
Other		38.9			38.9	
Consolidation reserve		17.2			16.9	
			12,585.3			12,585.0
VIII. Retained earnings			6,632.0			4,275.0
IX. Net income			4,286.1			3,327.4
Total shareholder's equity			35,879.9			32,515.1
Minority interest			13.2			24.7
Total shareholder's and minority equity			35,893.1			32,539.8
B) PROVISIONS FOR RISKS AND CHARGES						
1) Pensions and similar		2,014.9			2,546.1	
2) Income taxes		4,543.8			4,450.8	
3) Other		3,767.1			3,711.4	
			10,325.8			10,708.3
C) PROVISION FOR EMPLOYEE SEVERANCE INDEMNITIES			4,438.8			4,722.1
	Due beyond 12 months			Due beyond 12 months		
D) ACCOUNTS PAYABLE						
1) Bonds	12,202.7	16,951.2		14,838.2	16,387.5	
2) Banks:						
- long-term loans	7,034.3	9,942.9		13,294.6	15,786.1	
- short-term loans		744.0			1,175.0	
		10,686.9			16,961.1	
4) Notes payable					0.1	
5) Advances received	84.2	1,886.3		17.0	1,865.8	
6) Trade	120.3	4,956.8		192.8	5,348.4	
8) Unconsolidated subsidiaries and associated companies		3.9			30.8	
11) Taxes		1,374.7			692.5	
12) Social security	519.3	1,101.4		25.1	503.2	
13) Other	449.3	2,241.6		728.0	2,123.1	
14) Electricity Industry Equalization Fund		2,529.9			2,372.9	
Total accounts payable			41,732.7			46,285.4
E) ACCRUED PAYABLES AND DEFERRED INCOME						
Accrued payables			406.7			627.8
Deferred income:						
- premium on bond issues		24.9			7.1	
- other		443.8			276.7	
			468.7			283.8
Total accrued payables and deferred income			875.4			911.6
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY			93,265.8			95,167.2
MEMORANDUM ACCOUNTS						
Guarantees given		1.6			367.0	
Other		174,989.3			158,173.1	
Total memorandum accounts			174,990.9			158,540.1

Consolidated Income Statement

In billions of Lire	Sub-total	Total	Sub-total	Total
	1998		1997	
A) REVENUES				
1) Sales and services:				
- tariff charges	25,680.7		24,998.5	
- contributions from the Electricity Industry Equalization Fund	12,063.2		12,709.0	
- other	71.3		84.0	
		37,815.2		37,791.5
3) Change in contract work in progress		-2.7		-6.8
4) Capitalized costs and expenses		1,923.9		2,008.7
5) Other income and revenues:				
- contributions received for connection costs	1,090.1		1,028.3	
- other	885.4		1,096.6	
		1,975.5		2,124.9
Total revenues		41,711.9		41,918.3
B) OPERATING COSTS				
6) Materials and fuel		13,853.2		14,755.3
7) Services		1,750.0		2,219.9
8) Leases and rentals		477.1		423.9
9) Personnel:				
a) wages and salaries	5,410.7		5,546.2	
b) social security contributions	1,731.6		2,180.4	
c) employee severance indemnities	484.1		501.6	
d) pensions and similar	138.1		335.1	
e) other	260.6		267.8	
		8,025.1		8,831.1
10) Amortization, depreciation and write-downs:				
a) amortization of intangible assets	45.3		26.4	
b) depreciation of tangible assets	5,990.9		5,669.0	
c) fixed asset write-downs	19.6		132.8	
d) provisions for doubtful accounts	241.0		106.2	
		6,296.8		5,934.4
11) Changes in inventory		568.1		537.2
12) Provisions for risks and charges		400.7		0.3
13) Other provisions		284.9		88.0
14) Other operating costs		451.8		439.3
Total operating costs		32,107.7		33,229.4
Operating income (A-B)		9,604.2		8,688.9
C) FINANCIAL INCOME AND EXPENSE				
16) Investment and interest income:				
a) from accounts receivable held as other long-term assets:				
- other	199.2		298.8	
b) from fixed asset investments not representing equity investments	0.1		0.3	
c) from marketable securities not representing equity investments	18.5		7.2	
d) other:				
- other	306.3		118.6	
		524.1		424.9
17) Interest and related charges:				
- associated companies			3.7	
- other	2,003.7		2,617.7	
		2,003.7		2,621.4
Total financial income (expense), net		-1,479.6		-2,196.5

In billions of Lire	Sub-total	Total	Sub-total	Total
		1998		**1997**
D) ADJUSTMENTS TO INVESTMENTS				
19) Write-downs of:				
a) equity investments	1.2		175.7	
b) fixed asset investments not representing equity investments	0.2		0.4	
		1.4		176.1
Total adjustments to investments		-1.4		-176.1
E) EXTRAORDINARY INCOME AND EXPENSE				
20) Income:				
- other	821.6		1,291.8	
		821.6		1,291.8
21) Expense:				
- prior years' taxes	-		0.1	
- other	1,142.6		1,196.3	
		1,142.6		1,196.4
Total extraordinary income and expense, net		-321.0		95.4
Income before income taxes and minority interest (A-B+C+D+E)		7,802.2		6,411.7
22) Income tax expense		3,519.5		3,088.4
Net income before minority interest		4,282.7		3,323.3
Minority interest		3.4		4.1
NET INCOME		4,286.1		3,327.4

Form and content of the Consolidated Financial Statements

The Consolidated Financial Statements include the Parent Company, Enel SpA, and the companies over which it exercises either direct or indirect control via ownership of a majority of the voting rights, as defined by art. 2359 of the Italian Civil Code. The subsidiaries, CISE Tecnologie Innovative Srl, Enel Produzione SpA and So.l.e. SpA have been excluded, as they are recently established companies, which were not operative during 1998. Furthermore, as in the prior year's Financial Statements, the subsidiary, WIND Telecomunicazioni SpA, has been excluded in view of the limited scale of the company's operations during 1998, the restrictions on Enel's exercise of control imposed by the subsidiary's bylaws and the purpose of the investment (to maximize the value of Enel's assets and their subsequent disposal over the medium term).
The financial years of all consolidated companies correspond with the solar year.
An attachment lists companies consolidated on a line-by-line basis. In contrast to 1997, CISE SpA is no longer included in consolidation following its merger with Enel in June 1998.
The financial statements of consolidated companies are prepared in conformity with the accounting standards established by Italian law, interpreted and integrated by generally accepted accounting principles in Italy and adopted on an essentially consistent basis throughout the Group. Where necessary, items recorded solely for tax purposes have been reversed on consolidation.

Consolidation principles

The significant consolidation principles are the following:

- the difference between the acquisition cost of equity investments and the related portion of shareholder's equity is reflected in adjustments to the specific assets and liabilities on the basis of the valuation carried out on the purchase or acquisition of a controlling interest, where such an interest was acquired via subsequent purchases. The deficit arising on first consolidation of a subsidiary is reported as shareholder's equity under the item, "Consolidation reserve";
- the minority interest in net income and shareholder's equity is reported in appropriate items in the Income Statement and Balance Sheet;
- significant unrealized gains and losses deriving from inter-company transactions are eliminated, as are inter-company payables, receivables, costs and revenues;
- intercompany dividends are eliminated from the Consolidated Income Statement;
- adjustments to the financial statements of individual companies in order to eliminate items recorded solely for tax purposes and, where appropriate, to make them consistent with Group accounting policies, in addition to other consolidation adjustments, take account, where applicable, of the deferred tax effect, which is reported in the Provisions for income taxes.

Accounting policies

The accounting policies adopted for the preparation of the Consolidated Financial Statements for the year to December 31, 1998 are consistent with those adopted for the preparation of the 1997 Financial Statements, with the exception of the new principle in computing deferred tax assets, as described below. A summary of the most significant policies follows.

Intangible assets

Intangible assets are stated at cost and reflect the residual amount of long-lived assets to be amortized. Amortization is applied on a straight-line basis over the estimated economic life of the assets.

Tangible assets

Tangible assets are stated at purchase or production cost, including any additional costs directly chargeable to the assets and revaluation adjustments and restatements carried out in accordance with relevant legislation. The stated value of primary electrical plant also includes interest charged up to December 31, 1988 on the financing for new construction work. Such assets are written down to reflect any other than temporary impairment in value. The original value, adjusted solely to reflect depreciation, is reinstated in future years should the reasons for such write-downs no longer apply.
Routine maintenance costs are charged to the Income Statement as incurred.
Tangible assets are depreciated systematically each year on a straight-line basis, utilizing rates of depreciation that reflect the residual economic lives of the related assets, estimated on the basis of specific appraisals and taking into account contributions from customers.
Depreciation rates for assets relating to the electricity business are as follows:

	Economic-technical rates
Civil buildings	2.5%
Hydroelectric plant	2.5%
Thermal plant	5.0%
Geothermal plant	8.0%
Plant using alternative energy sources	4.7%
Power lines	2.85%
Transformer stations	5.0%
Medium- and high-voltage distribution lines	5.0-5.5%

The above rates are halved for assets acquired during the year. Other Group companies apply ordinary rates of depreciation permitted by tax regulations, on the basis of the residual useful lives of assets.
Depreciation recorded solely for tax purposes in the financial statements of individual companies, as permitted by established legislation, is eliminated, taking into account the related tax effect.

Investments and other long-term assets

Equity investments in unconsolidated subsidiaries, as described above, are stated at purchase or subscription cost and written down to reflect any other than temporary impairment in value. In the event of commitments to recapitalize quotas of the shareholder's equity of loss-making companies, where the amount exceeds the complete write-down of the investment, such commitments are covered by provisions for losses on investments.
Receivables are stated at their estimated realizable value.
"Other securities" include Enel bonds, stated at nominal value, and other bonds stated at purchase cost, written down to reflect any other than temporary impairment in value.

Inventories

Material inventories are stated at purchase cost, calculated on the basis of the weighted average cost.
Obsolete or slow moving stocks are written down on the basis of their estimated economic lives or realizable value.
Contract work in progress is stated on the basis of the contracted amounts due, calculated with reasonable certainty on a percentage-of-completion basis.

Receivables and short-term investments

Receivables are stated at their estimated realizable value and classified among "Long-term investments" and "Current assets" in relation to their nature and purpose. Non-interest bearing receivables held as fixed assets are stated at their present value, calculated on the basis of the interest rate applicable at the time of entry in the accounts.
"Marketable securities" refer to Enel bonds stated at nominal value, and other bonds and government securities stated at the lower of purchase cost and market value, which in the case of listed securities is calculated on the basis of average stock market prices during the month of December.

Accruals and deferrals

Accruals and deferrals are calculated in accordance with the accrual basis of accounting.
Issue discounts and other fees relating to funding are charged to the Income Statement on a systematic basis over the duration of each loan.

Provisions for risks and charges

"Provisions for pensions and similar obligations" relate primarily to the union agreement regarding a supplementary pension fund for managers participating in the scheme at the time. As at April 1, 1998, following the establishment of the FONDENEL fund for currently employed managers, such provisions relate solely to those already in retirement. The provisions also include sums to be paid in lieu of notice to existing employees who have acquired such a right, in accordance with the collective labor contract and current union agreements.

Until December 31, 1997, "Provisions for income taxes" covered deferred tax liabilities relating to the tax effects of adjustments to the financial statements of individual companies, carried out in order to eliminate items recorded solely for tax purposes and to make them consistent with the accounting policies applied throughout the Group. With effect from 1998, the criteria applied in the recognition of deferred taxes have been adjusted to be consistent with the accounting principle regarding income tax adopted by the Italian Accounting Profession as of March 1999.
As a result the following have been recognized:

- deferred tax liabilities, with the exception of those relating to tax-exempt reserves, which are reported at the time such reserves become liable to taxation within the established limits, as applied in prior years;
- deferred tax assets, where there is reasonable certainty regarding the future realization of such assets.

This has led to the recognition, as at December 31, 1998, of deferred tax assets amounting to Lit. 828.8 billion reflected in increases in shareholder's equity and 1998 net income of equal amount. Lit. 587.9 billion of the above sum, relating to prior years, has been charged to extraordinary income, whilst the remaining Lit. 240.9 billion, relating to 1998, was deducted from current income taxes.
Current income taxes for the year are recorded under tax liabilities on the basis of the Group's estimated taxable income, in accordance with established regulations and taking into account any applicable exemptions and tax credits due.

"Other" consists of provisions for various charges or liabilities of determinate nature and of certain or likely occurrence. As at December 31, 1998, however, the exact amount or date on which such items will occur is uncertain. Provisions reflect the best possible estimates made on the basis of the information available.

Provision for employee severance indemnities

The provisions cover the accrued liability to each employee as at December 31, 1998, in accordance with current legislation and labor agreements, net of any advances paid.

Accounts payable

Accounts payable are stated at nominal value.

Capital grants

Grants received to finance specific construction projects, the value of which is recorded among tangible assets, are recognized once the legal right to such grants has been acquired and their amount is reasonably determinable. They are deferred and charged to the Income Statement over the period of depreciation of the assets to which they refer.

Other grants

The above are charged to the Income Statement once the legal right to receive such grants has been acquired and their amount is reasonably determinable.

Revenues

Tariff charges are calculated on the basis of consistent criteria relating to consumption as measured by meter readings carried out at set intervals, including amounts yet to be billed as at December 31. Pricing is based on the tariff structure in effect at December 31, as established by law and the Electrical Energy and Gas Authority. Revenues from other sales and services are recognized when the service is supplied or the transfer of ownership of the goods concerned takes place.

Translation principles for items denominated in foreign currency

Until December 31, 1997, any loss arising on translation of receivables and payables applying average exchange rates for the month of December, after taking account of related hedging contracts, was accrued and reflected in specific provisions for exchange rate movements.
Transactions denominated in foreign currencies are translated into lire at the exchange rate in effect on the date of the transaction. At December 31, 1998 assets and liabilities denominated in foreign currencies have been translated into lire at the exchange rate on the balance sheet date.
Any gains or losses are charged to the Income Statement under financial income and expense, net of releases from the pre-established provisions for exchange rate movements, and taking account of related hedging contracts.
The only exception to this is for foreign currency exchange gains that exceed foreign currency exchange losses related to long-term assets or liabilities, which are recorded only when realized.
The above change has led to a clearer classification in the financial statements, without affecting the value of net income and shareholder's equity.

Interest rate derivatives

In order to hedge interest rate risk the Group enters into derivative contracts hedging specific transactions and overall exposure.
Interest rate differentials accruing on the above financial derivatives at the end of the year are reported on an accrual basis in the Income Statement under financial income and expense, on a basis consistent with the charges deriving from the underlying liabilities.

Fixed assets

Intangible assets - Lit. 121.0 billion

The following table shows a breakdown of intangible assets and movements during the year:

In billions of Lire	as at 12.31.**1997**	Purchases	Reclassifications	Amortization ordinary	Amortization extraordinary expense	as at 12.31.**1998**
Solidarity contribution	85.3	0.3	-	-	(42.7)	42.9
Software development	30.0	27.4	31.4	(44.0)	-	44.8
Other	3.4	-	-	(1.3)	-	2.1
Total	118.7	27.7	31.4	(45.3)	(42.7)	89.8
Work in process and advances	40.6	22.0	(31.4)	-	-	31.2
Total	159.3	49.7	-	(45.3)	(42.7)	121.0

The item, “Solidarity contribution”, refers to the portion of the amount due in relation to supplementary pension contributions, in accordance with Law 662 of December 23, 1996, which permits the relevant installments to be recorded in the Income Statement for the period in which they fall due (18 bimonthly installments of equal amount from February 20, 1997). Amortization for the period has been recorded among extraordinary expense, on a basis consistent with previous periods, in view of the fact that it is a component of income relating to previous years.

“Software development” relates to long-lived software applications, amortized over three years.

“Work in process and advances” refers to ongoing work on the development of software applications and leasehold improvements in progress.

Tangible assets - Lit. 75,687.2 billion

The following table shows a breakdown by category of tangible asset and movements during the year:

In billions of Lire	Property	Plant and machinery	Industrial and commercial equipment	Other	Under construction	Total
BALANCE AS AT 12.31.1997						
Historical cost	12,341.1	94,879.0	1,072.8	2,945.3	11,199.8	122,438.0
Revaluations and adjustments (Law 292/1993)	7,169.3	20,257.9	8.3	(248.8)	417.2	27,603.9
Gross value	19,510.4	115,136.9	1,081.1	2,696.5	11,617.0	150,041.9
Accumulated depreciation	(5,219.2)	(65,787.6)	(765.9)	(2,118.5)	-	(73,891.2)
Balance as at 12.31.1997	14,291.2	49,349.3	315.2	578.0	11,617.0	76,150.7
MOVEMENTS DURING THE YEAR						
Investment	284.0	4,164.3	45.0	110.1	1,267.1	5,870.5
Transfers during the year	621.0	4,474.8	0.5	8.0	(5,104.3)	-
Net disposals	(134.7)	(81.1)	(1.1)	(84.5)	(17.7)	(319.1)
Depreciation	(610.6)	(5,174.0)	(66.9)	(139.4)	-	(5,990.9)
Write-downs	-	(0.3)	(4.1)	-	(19.6)	(24.0)
Balance of movements during 1998	159.7	3,383.7	(26.6)	(105.8)	(3,874.5)	(463.5)
BALANCE AS AT 12.31.1998						
Historical cost	13,174.3	103,271.1	1,110.6	2,493.7	7,326.2	127,375.9
Revaluations and adjustments (Law 292/1993)	7,083.2	20,076.6	8.5	(248.9)	416.3	27,335.7
Write-downs	-	(0.3)	(4.1)	-	-	(4.4)
Gross value	20,257.5	123,347.4	1,115.0	2,244.8	7,742.5	154,707.2
Accumulated depreciation	(5,806.6)	(70,614.4)	(826.4)	(1,772.6)	-	(79,020.0)
Balance as at 12.31.1998	14,450.9	52,733.0	288.6	472.2	7,742.5	75,687.2

The table on the following page shows the gross value of the above assets and the relevant amount for accumulated depreciation, analyzed on the basis of those belonging to the Parent Company and those belonging to consolidated companies.

Tangible assets as at December 31, 1998

In billions of Lire	Parent Company				Other companies			
	Gross value	Accumulated depreciation		Net value	Gross value	Accumulated depreciation		Net value
		amount	%			amount	%	
Property	19,799.7	5,738.0	29.0	14,061.7	457.8	68.6	15.0	389.2
Plant and machinery	123,178.4	70,467.5	57.2	52,710.9	169.0	146.9	86.9	22.1
Industrial and commercial equipment	1,064.0	782.6	73.6	281.4	51.0	43.8	85.9	7.2
Other	2,236.6	1,765.5	78.9	471.1	8.2	7.1	86.6	1.1
Under construction	7,742.0	-	-	7,742.0	0.5	-	-	0.5
Total	154,020.7	78,753.6	53.8 [1]	75,267.1	686.5	266.4	38.8 [1]	420.1

[1] Calculated as a percentage of assets subject to depreciation.

Total as at 12.31.**1998**				Total as at 12.31.**1997**			
Gross value	Accumulated depreciation		Net value	Gross value	Accumulated depreciation		Net value
	amount	%			amount	%	
20,257.5	5,806.6	28.7	14,450.9	19,510.4	5,219.2	26.8	14,291.2
123,347.4	70,614.4	57.2	52,733.0	115,136.9	65,787.6	57.1	49,349.3
1,115.0	826.4	74.1	288.6	1,081.1	765.9	70.8	315.2
2,244.8	1,772.6	79.0	472.2	2,696.5	2,118.5	78.6	578.0
7,742.5	-	-	7,742.5	11,617.0	-	-	11,617.0
154,707.2	79,020.0	53.8 (1)	75,687.2	150,041.9	73,891.2	53.4 (1)	76,150.7

As at December 31, 1998, the Parent Company's tangible assets break down by category of use as follows:

In billions of Lire	Gross value	Accumulated ordinary depreciation	Net value
Generating plants: [1]			
- thermal	41,346.0	20,172.6	21,173.4
- hydroelectric:			
- assets to be relinquished	8,901.0	2,060.0	6,841.0
- other	8,305.9	3,882.7	4,423.2
Total	17,206.9	5,942.7	11,264.2
- geothermal	2,343.6	1,198.3	1,145.3
- alternative energy sources	96.4	16.0	80.4
Total generating plants	60,992.9	27,329.6	33,663.3
Power lines and transformer stations	10,038.4	4,386.8	5,651.6
Distribution network	61,195.1	40,771.7	20,423.4
Other plant and machinery	3,491.0	2,275.0	1,216.0
Other assets and equipment	3,487.1	2,587.8	899.3
Industrial buildings [2]	5,626.8	1,125.8	4,501.1
Civil buildings	1,217.4	277.0	940.4
Land [3]	230.0	-	230.0
Total capital assets	146,278.7	78,753.6	67,525.1
Under construction	7,742.0	-	7,742.0
TOTAL	154,020.7	78,753.6	75,267.1

[1] Figures also include the value of industrial property.
[2] Buildings used as offices, warehouses, etc.
[3] Not relevant to the business.

With reference to hydroelectric plant assets to be relinquished, Decree 79/99 (applying EC Directive 96/92 regarding the internal electricity market) has established the expiry date for concessions relating to large reservoirs managed and operated by Enel. The concession will run out thirty years after the decree comes into effect, thus in 2029.
At such a date, therefore, all water catchment plant, control equipment, high pressure pipes and drainage pipes must be transferred to the State in good working order, unless in case of concession renewal.
The same Decree 79/99 permits the Valle d'Aosta Regional Authority and the autonomous provinces of Trento and Bolzano to establish alternative expiry dates to 2029.

Investment during the year is analyzed as follows:

In billions of Lire	
Generating plants:	
- hydroelectric	359.5
- thermal	1,326.9
- geothermal	175.2
- alternative energy sources	7.6
Total generating plants	1,869.2
Power lines and transformer stations	593.4
Distribution network	3,007.0
Property	131.9
Other assets and equipment	269.0
Total investment	5,870.5

Write-downs relate primarily to the elimination of the cost of studies and projects cancelled during the year. Estimated liabilities and charges deriving from the eventual abandonment of currently suspended initiatives are covered by the "Provisions for legal disputes and other contingencies".
Assets operated under finance leases are of little significance, given the value of lease payments made during 1998 (Lit. 0.3 billion).

Investments and other long-term assets - Lit. 3,299.9 billion
Equity investments - Lit. 318.7 billion
Unconsolidated equity investments break down as follows:

In billions of Lire	Book value	Quota of shareholder's equity	Difference
Subsidiaries:			
- WIND Telecomunicazioni SpA	306.0	280.5	25.5
- Enel Produzione SpA	1.0	1.0	-
- CISE Tecnologie Innovative Srl	1.2	1.2	-
- So.l.e. SpA	0.2	0.2	-
Total subsidiaries	308.4	282.9	25.5
Associated and other companies:			
- ELCOGAS S.A.	3.1	3.1	-
- SOTACARBO SpA	2.3	2.8	- 0.5
- Other of minor significance	4.9	n.a.	
Total associated and other companies	10.3		
TOTAL	318.7		

The balance has increased by Lit. 301.4 billion with respect to December 31, 1997. Lit. 300.9 billion derives from the subscription of the capital increase carried out by WIND Telecomunicazioni SpA. The difference between the book value of the investment and the corresponding quota of shareholder's equity takes into account the company's positive economic outlook.
A detailed list of subsidiaries and associated companies is attached.

Receivables - Lit. 2,979.9 billion
The Lit. 152.3 billion decrease in this item is analyzed below:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Due from the Electricity Industry Equalization Fund as reimbursement of nuclear-related charges net of provisions for write-downs of Lit. 390 billion	1.786,3	1.993,3	-207,0
Due from third parties:			
- due from INPS as contributions relief (Law 151/1993)	519,5	663,8	-144,3
- withholding tax on the provision for employee severance indemnities (Law 662/1996)	495,8	289,1	+206,7
- other	178,3	186,0	-7,7
Total due from third parties	1.193,6	1.138,9	+54,7
Total	2.979,9	3.132,2	-152,3

"Amounts due from the Electricity Industry Equalization Fund as reimbursement of nuclear-related charges" represent the remaining charges to be reimbursed to the Parent Company in line with the government's policies regarding nuclear power.
The above receivables decreased by Lit. 207.0 billion, representing the balance of the amount collected during the year (Lit. 311.5 billion) and the interest accruing over the same period (Lit. 104.5 billion), calculated as a percentage of 72.56% of the "ABI (Italian Banking Association) prime rate". Provisions for write-downs, totaling Lit. 390 billion, were made on December 31, 1997, following the Electrical Energy and Gas Authority's resolution 58/1998 of June 12, 1998, questioning the adequacy of the criteria applied in the calculation of the reimbursement of a number of items. Enel appealed against the resolution to the Lombardy Regional Administrative Court, whose sentence of February 18, 1999 accepted a large part of the Company's claims. Any positive effects will be recognized once the sentence becomes definitive, given that the Authority still has time to appeal against the Court's decision. Further information is provided in the section, "Contingent liabilities not reported in the Balance Sheet", following the notes to liabilities and shareholder's equity. The Authority's resolution 161/98 has increased the surcharge for nuclear-related costs, other than those relating to the reprocessing of nuclear fuel and the shutdown and moth-balling of nuclear plants, from Lit. 1.5/kWh to Lit. 8/kWh. The Group expects to collect approximately Lit. 970 billion during 1999.

The amount due from INPS (the National Institute of Social Insurance), totaling Lit. 519.5 billion, reflects the current value, calculated at an annual interest rate of 9.60%, effective at the time the item was entered in the accounts, of past relief for employees operating in the South of Italy (Mezzogiorno). Such relief was approved by Constitutional Court sentence 261 of June 12, 1991 and the relevant reimbursements are to be paid to the Parent Company in installments up to 2001, without any surcharge to take account of revaluations or interest.

"Withholding tax on the provision for employee severance indemnities" was paid in accordance with tax legislation. The balance is increased in proportion to adjustments to the provision.

"Other" primarily relates to loans to employees, bearing interest calculated at current market rates, in order to finance first-time house-buyers or provide assistance to cover family necessities of an exceptional nature.

Other securities - Lit. 1.3 billion
This item primarily relates to bonds issued by the Parent Company and deposited as guarantees.

Current assets

Inventories - Lit. 1,104.6 billion

This item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Materials and fuel:			
- fuel	656.6	962.8	-306.2
- material, equipment and other stocks	413.9	680.9	-267.0
Total	1,070.5	1,643.7	-573.2
Contract work in progress	33.8	36.5	-2.7
Advances	0.3	35.7	-35.4
Total	1,104.6	1,715.9	-611.3

The reduction with respect to December 31, 1997 is due to both more efficient stock management aimed at reducing inventory levels, and to the decline in fuel prices.
The current market value of inventories (primarily fuel), based on market prices during the early months of 1999, does not differ significantly from the valuation method adopted, based on the weighted average cost.

Receivables - Lit. 9,739.7 billion

Trade - Lit. 5,328.4 billion

Such receivables relate primarily to amounts due for the supply of electricity and services and as interest, and include amounts to be billed. The following table shows a breakdown of the item and movements during the year:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Trade:			
- electricity supplies	5,347.7	5,234.4	+113.3
- non electrical sales	432.5	384.5	+48.0
Total	5,780.2	5,618.9	+161.3
Allowance for doubtful accounts:			
- ordinary provisions	(326.2)	(185.7)	(+140.5)
- provisions for overdue interest	(125.6)	(149.9)	(-24.3)
Total	(451.8)	(335.6)	(+116.2)
Total	5,328.4	5,283.3	+45.1

The increase in the item compared with December 31, 1997 is primarily due to greater turnover, whilst the rise in amounts due from non electrical sales derives from the sale of capital assets as part of the Group's reorganization. The increase in the "Allowance for doubtful accounts" relates to provisions to cover the possible temporary settlement, currently undergoing evaluation, of significant amounts owed by municipalities in financial difficulties.

Unconsolidated subsidiaries - Lit. 57.1 billion
This item totals Lit. 57.0 billion and relates to amounts re-charged to WIND Telecomunicazioni SpA by the Parent Company, with the remainder due from So.l.e. SpA.

Associated companies - Lit. 2.1 billion
The balance shows a decline of Lit. 5.3 billion with respect to December 31, 1997.

Other - Lit. 793.2 billion
The following table shows a breakdown of the item and movements during the year:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Prepayments to suppliers for operating expenses	66.7	590.1	-523.4
Tax credits, including related interest	108.9	297.4	-188.5
Accounts to be settled with suppliers	378.4	71.0	+307.4
Amounts due from social security institutions	14.8	10.6	+4.2
Sundries	224.4	127.3	+97.1
Total	793.2	1,096.4	-303.2

The decrease in "Prepayments to suppliers for operating expenses" was mainly due to the reduced amount billed in advance, at the end of 1998, in relation to the fixed cost portion of electricity to be supplied by EdF during the subsequent year.
The increase in "Accounts to be settled with suppliers" relates to electricity price adjustments to be compensated for via credit notes to be issued during 1999. The increase in sundries was primarily due to a sum owed to the Group as a result of a Supreme Court judgement.

Electricity Industry Equalization Fund - Lit. 3,558.9 billion
This item represents amounts payable to the Parent Company as contributions towards generation and fuel costs. Furthermore, the Company expects to receive contributions for electricity imports, following the sentence of the Lombardy Administrative Court (T.A.R.) dated December 20, 1997, as described in the section, "Contingent liabilities not reported in the Balance Sheet". The Parent Company has also begun proceedings with the aim of obtaining additional contributions in the form of incentives for plant revamping and upgrading, in accordance with CIP Directive 6/1992.
The amount due from the Fund, totaling Lit. 3,558.9 billion, is partially offset by a payable to the Fund of Lit. 2,529.9 billion. The net amount receivable as at December 31, 1998, therefore, amounts to Lit. 1,029.0 billion, against the Lit. 4.462.5 billion of December 31, 1997, representing a decrease of Lit. 3,433.5 billion. The decline was principally due to adjustment of the surcharge intended to cover the Fund's past deficit.

Short-term investments - Lit. 857.0 billion

Marketable securities - Lit. 166.2 billion

This item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Enel's bonds held as treasury stock	157.1	127.2	+29.9
Government and other securities	9.1	9.0	+0.1
Total	166.2	136.2	+30.0

"Enel's bonds held as treasury stock" relate almost entirely to the "Special series reserved for subscription by Enel employees" issued by the Parent Company. The increase was due to the buy-backs from personnel during the year.

Time deposits - Lit. 690.8 billion

The balance refers to transactions entered into during the year and relates to investment in repurchase agreements denominated in Italian Lire.

Cash and cash equivalents - Lit. 2,163.4 billion

The item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Bank deposits	2,084.8	325.5	+1,759.3
Post office deposits	77.2	59.9	+17.3
Total	2,162.0	385.4	+1,776.6
Cash and notes on hand	1.4	1.6	-0.2
Total	2,163.4	387.0	+1,776.4

In addition to ordinary liquidity resulting from operations, bank deposits also reflect money market transactions denominated in Italian Lire aimed at maximizing returns on the investment of surplus liquidity generated during the period. Cash and cash equivalents are not subject to any form of restriction limiting their ready conversion into liquid funds.

Accrued receivables and prepaid expenses - Lit. 293.0 billion
This item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Accrued receivables	41.0	29.3	+11.7
Issue discounts	17.1	25.8	-8.7
Other prepaid expenses:			
- interest expense	71.0	58.5	+12.5
- water rates	82.0	70.7	+11.3
- other	81.9	50.9	+31.0
Total	234.9	180.1	+54.8
Total accrued receivables and prepaid expenses	293.0	235.2	+57.8

"Accrued receivables" rose as a result of the interest accruing on time deposits not present during the previous year.
The increase in the item, "other", under prepaid expenses refers primarily to the expenses sustained in relation to the Lit. 1 billion bond issue denominated in Euro.

The following table provides a breakdown of receivables and accrued receivables by maturity.

In billions of Lire	1 year	Falling due within 2-5 years	Over 5 years	Total
LONG-TERM RECEIVABLES				
Electricity Industry Equalization Fund as reimbursement of nuclear-related charges	969.4	-	816.9	1,786.3
Third parties	193.1	461.1	539.4	1,193.6
Total long-term receivables	1,162.5	461.1	1,356.3	2,979.9
CURRENT RECEIVABLES				
Trade	4,866.8	449.2	12.4	5,328.4
Unconsolidated subsidiaries	57.1	-	-	57.1
Associated companies	2.1	-	-	2.1
Electricity Industry Equalization Fund	3,558.9	-	-	3,558.9
Other	783.1	0.8	9.3	793.2
Total current receivables	9,268.0	450.0	21.7	9,739.7
Accrued receivables	41.0	-	-	41.0
TOTAL	10,471.5	911.1	1,378.0	12,760.6

Total shareholder's equity - Lit. 35,879.9 billion
Movements during the year break down as follows:

In billions of Lire	as at 12.31.**1997**	Allocation of 1997 net income	Other movements	Balance of movements	as at 12.31.**1998**
Share capital	12,126.2	-	-	-	12,126.2
Legal reserve	201.5	48.8		48.8	250.3
Other reserves:					
- restatement reserve (Law 292/1993)	10,607.2	-	-	-	10,607.2
- shareholder contribution for future capital increases	1,922.0	-	-	-	1,922.0
- other	38.9	-	-	-	38.9
- consolidation reserve	16.9	-	0.3	0.3	17.2
Total	12,585.0	-	0.3	0.3	12,585.3
Retained earnings	4,275.0	2,357.0	-	2,357.0	6,632.0
Net income	3,327.4	(3,327.4)	4,286.1	958.7	4,286.1
Total	32,515.1	(921.6)	4,286.4	3,364.8	35,879.9

The balance of the "Share capital", which is unchanged with respect to December 31, 1997, relates to that of Enel SpA. The relevant amount was determined by the Treasury Minister's Decree of July 14, 1992, which transformed Enel into a joint stock company. The share capital consists of 12,126,150,379 shares with a par value of Lit. 1,000 each, giving a total of Lit. 12,126,150,379,000.

The "Restatement reserve (Law 292/1993)" comprises the sum of Lit. 7,334.6 billion authorized by the Treasury Minister with the Decree of January 19, 1995. In 1996, a further Lit. 3,272.6 billion was transferred from the "Provisions for income taxes", representing the residual equalization tax no longer due following the Finance Ministry's clarification of the tax status of the reserve in question.

The "Shareholder contribution for future capital increases" relates to payments made by the Treasury between 1992 and 1994 to reimburse Enel for repayments of principal on loans granted in previous years by finance bills 41/1986 and 910/1986, and which were to be fully financed by the government. As a result of an earlier decision by the Finance Ministry, subsequently confirmed by the Council of State, in view of its origin, the reserve is to be considered to all effects part of the Parent Company's share capital.

Reconciliation of the Parent Company's shareholder's equity and net income with the consolidated amounts is presented in the following table:

In billions of Lire	Net income for the year	Shareholder's equity	Net income for the year	Shareholder's equity
	1998	as at 12.31.**1998**	**1997**	as at 12.31.**1997**
Balances from Parent Company's financial statements	2,071.6	27,685.9	976.3	26,535.9
Items reported by Parent Company solely for tax purposes (additional depreciation and reserve for capital grants and deferred tax assets)	2,222.3	8,178.3	2,357.0	5,956.0
Effects of consolidating financial statements of subsidiaries	(7.8)	15.7	(4.3)	23.9
Other consolidation adjustments	-	-	(1.6)	(0.7)
Balances from consolidated financial statements	4,286.1	35,879.9	3,327.4	32,515.1

Provisions for risks and charges - Lit. 10,325.8 billion

The following table shows movements in provisions during the year:

In billions of Lire	as at 12.31.**1997**	Provisions	Releases	Other movements	as at 12.31.**1998**
Pensions and similar	2,546.1	485.9	(244.6)	(772.5)	2,014.9
Income taxes:					
- deferred tax liabilities on current value of contributions relief (Law 151/1993)	238.2	-	(51.5)	-	186.7
- deferred tax liabilities on consolidation adjustments	4,212.6	974.5	-	(1.2)	5,185.9
- deferred tax assets	-	(828.8)	-	-	(828.8)
Total	4,450.8	145.7	(51.5)	(1.2)	4,543.8
Other:					
- exchange rate fluctuations	356.6	-	(104.8)	(251.8)	-
- legal disputes and other contingencies	1,274.1	923.3	(10.6)	-	2,186.8
- treatment and disposal of nuclear fuel	658.6	42.8	(25.6)	251.5	927.3
- decommissioning of inactive nuclear plants	651.6	42.4	(73.4)	-	620.6
- losses on investments in associated companies	756.0	-	(504.5)	(251.5)	-
- charges for early pensions scheme	14.5	32.4	(14.5)	-	32.4
Total	3,711.4	1,040.9	(733.4)	(251.8)	3,767.1
Total provisions for risks and charges	10,708.3	1,672.5	(1,029.5)	(1,025.5)	10,325.8

Provisions for pensions and similar - Lit. 2,014.9 billion

At the end of 1998, such provisions principally represented the present value of future liabilities connected with trade union agreements regarding a supplementary pension fund for managers participating in the scheme (both currently employed and in retirement). The provisions also covered indemnities to be paid in lieu of notice to existing employees who have acquired such a right, in accordance with collective labor contracts and current union agreements.

The agreement between Enel Group companies and FNDAI (National Federation of Industrial Managers), signed on January 23, 1998, led to the establishment of a pension fund known as FONDENEL, with effect from April 1, 1998. The fund is managed externally and is subject to the regulations laid down by Decree 124 of April 21, 1993.

It differs from the previous pension plan, which was based on defined benefits, in that it is now a defined-contribution plan. Following the transfer of the accumulated contributions of eligible managers to the above fund on its creation, the Company is liable to pay the said fund a sum equal to the provisions accruing to March 31, 1998, supplemented in accordance with the agreed parameters contained in the above-mentioned agreement. The supplement, totaling Lit. 166.1 billion, is recorded in the Income Statement under extraordinary expense. The remaining amount payable to FONDENEL as at December 31, 1998, totaling Lit. 690.4 billion, is to be paid in six biannual installments of equal amount. This payable is recorded under liabilities as an amount due to social security institutions.

Therefore, in addition to the above-mentioned indemnities, the balance of “Provisions for pensions and similar obligations” as at December 31, 1998, represents the present value of future pension liabilities to retired managers, totaling Lit. 1,913.0 billion. Actuarial adjustments are charged to the Income Statement under “Other provisions”.

Provisions for income taxes - Lit. 4,543.8 billion

Provisions made during the year are based on the tax effect of consolidation adjustments (essentially the elimination of additional depreciation) pertaining to the year. As of 1998 deferred tax assets, relating primarily to taxed provisions and adjustments effected by the Parent Company, have been recognized. Releases from provisions for deferred taxes on the current value of contributions relief relate to the current year’s portion of the taxes due on the installment collected in 1998.

Other provisions - Lit. 3,767.1 billion

Exchange rate fluctuations

The provisions were reduced to zero, as a result of releases during the year in relation to the repayment of loans denominated in foreign currency, and in order to eliminate the prior economic effects deriving from the direct adjustment of existing balances as at December 31, 1998.

Provisions for legal disputes and other contingencies - Lit. 2,186.8 billion

The "Provisions for legal disputes and other contingencies" covers potential liabilities that, according to the Parent Company's internal and external legal advisors, could result from current legal proceedings (primarily relating to supply contracts, labor disputes and plant operations), without taking into account the effects of proceedings in which a favorable outcome is expected or those in which an adverse outcome cannot be reasonably estimated. Further information regarding the latter is provided in the section "Contingent liabilities not reported in the Balance Sheet". Calculation of the amount required is based on both the estimated charges that could derive from litigation or other disputes arising during the year, and updated estimates of charges relating to disputes of prior years. No provisions have been made in relation to disputes arising from the Vajont disaster. It is believed that, although the claims against Enel are substantial, they are matched by the Parent Company's counterclaims, since the latter form part of the same proceedings and relate to the same event.

The provisions also include provisions for potential charges and losses on the retirement or alternative use of assets not currently used for production. Such provisions were estimated on the basis of the information currently available. Provisions totaling Lit. 522.6 billion were made during the year and, in view of the nature of the related liabilities, charged to extraordinary expense. The provisions also cover sundry estimated liabilities and charges, for which further provisions of Lit. 400.7 billion were made during the year.

Provisions for treatment and disposal of nuclear fuel - Lit. 927.3 billion

Provisions for decommissioning of inactive nuclear plants - Lit. 620.6 billion

Movements in the above items are linked to the release of funds to cover expenses sustained during the year, and new provisions to ensure coverage of the present value of future charges to be incurred.

"Provisions for the treatment and disposal of nuclear fuel" include Lit. 251.5 billion previously allocated to the "Provisions for losses on investments in associated companies", as described below.

Provisions for losses on investments in associated companies

During 1998 the Group came to a final agreement regarding its definitive withdrawal from the NERSA project. The agreement involved the payment of Lit. 495.5 billion as Enel's quota of NERSA S.A.'s accumulated losses, a sum covered by the release of funds from the provisions for losses on investments in associated companies. Moreover, the Parent Company sold its 198,000 shares to Electricité de France (EdF) at a symbolic price of FF1 each, involving the consequent transfer of all related rights and obligations to EdF.

This includes the expenses relating to the post-operative phase and the decommissioning of the plant.

The future costs relating to the storage and re-importation into Italy (where it will be transferred to the national deposit) of the nuclear fuel belonging to Enel are fully covered by the remaining balance of Lit. 251.5 billion, which has been reclassified to "Provisions for the treatment and disposal of nuclear fuel".

Provisions for early pensions scheme - Lit. 32.4 billion
This item consists of provisions for extraordinary costs linked to the temporary offer of agreed early retirement packages, forming part of the Parent Company's reorganization.

Provisions for employee severance indemnities - Lit. 4,438.8 billion
Movements during the period are as follows:

In billions of Lire

Balance as at 12.31.1997	4,722.1
Provisions	484.1
Releases and other movements	(767.4)
Balance as at 12.31.1998	4,438.8

The balance represents provisions for employee severance indemnities made in accordance with the relevant legislation, net of advances paid to personnel to cover "medical expenses" and "first-time house purchases".

Accounts payable - Lit. 41,732.7 billion
Bonds - Lit. 16,951.2 billion
The item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Bonds guaranteed by the government:			
- denominated in Lire	9,935.6	11,203.9	-1,268.3
- denominated in foreign currency	1,072.8	1,183.6	-110.8
Total	11,008.4	12,387.5	-1,379.1
Bonds not guaranteed by the government:			
- denominated in Lire	4,000.0	4,000.0	-
- denominated in Euro	1,942.8	-	+1,942.8
Total	5,942.8	4,000.0	+1,942.8
Total	16,951.2	16,387.5	+563.7

Movements during the year reflect the balance of new issues, totaling Lit. 1,942.8 billion on the international market and Lit. 147.8 billion on the domestic market, repayments of Lit. 1,687.4 billion and the effect of the direct adjustment carried out in order to reflect year-end exchange rates, totaling Lit. 160.5 billion. Issues on the international market relate to bonds worth 1 billion Euro, issued in October 1998, and bearing interest of 4.5% per annum. The bonds are listed on the Luxembourg Stock Exchange. Investors have the right to obtain early redemption at par should at least one of the following events occur: an obligatory and back-dated withdrawal of art. 2362 of the Italian Civil Code, which ascribes responsibility for Enel's borrowing to the sole shareholder; a reduction in the issuer's shareholder's equity to below two-thirds of the current value.
The residual amount due on bonds not guaranteed by the government, as at December 31, 1998, relates to bonds issued by the Parent Company for which the government is in any case responsible in view of the fact that it is the sole shareholder.

Banks - Lit. 10,686.9 billion
This item breaks down as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Long-term loans	9,942.9	15,786,1	-5,843.2
Short-term loans	744.0	1,175.0	-431.0
Total	10,686.9	16,961.1	-6,274.2

The change in the value of long-term borrowing represents the balance of new loans obtained on the domestic market, totaling Lit. 305.8 billion, repayments of Lit. 6,357.4 billion and the effect of the direct adjustment to reflect year-end exchange rates, totaling Lit. 208.4 billion.

Residual long-term borrowing, as at December 31, 1998, breaks down by lender as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
EIB - European Investment Bank	3,104.5	3,493.1	-388.6
S. Paolo di Torino - IMI	3,062.7	4,416.2	-1,353.5
MEDIOBANCA	1,660.0	2,610.0	-950.0
EFIBANCA	575.0	825.0	-250.0
CENTROBANCA	127.2	138.6	-11.4
Other banks	1,413.5	4,303.2	-2,889.7
Total	9,942.9	15,786.1	-5,843.2

Long-term borrowing reported in the financial statements totals Lit. 26,894.1 billion, as shown below:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Bonds	16,951.2	16,387.5	+563.7
Long-term loans	9,942.9	15,786.1	-5,843.2
Total	26,894.1	32,173.6	-5,279.5

Total long-term borrowing breaks down as follows by category and level of interest rate:

In billions of Lire	Up to 5%	Between 5% and 8%	Between 8% and 10%	Above 10%	Total
Fixed rate:					
- loans with exchange rate guarantee	35.6	458.9	560.9	109.3	1,164.7
- loans denominated in non-EMU currencies without exchange rate guarantee	53.5	192.1	11.3	18.7	275.6
- loans denominated in EMU currencies	1,942.8	85.7	927.3	83.0	3,038.8
- loans denominated in Lire	14.3	802.4	1,389.5	1,025.2	3,231.4
Total	2,046.2	1,539.1	2,889.0	1,236.2	7,710.5
Floating rate: [1]					
- loans denominated in Lire	16,033.3	3,146.5	1.4	0.3	19,181.5
- loans denominated in EMU currencies	2.1	-	-	-	2.1
Total	16,035.4	3,146.5	1.4	0.3	19,183.6
Total	18,081.6	4,685.6	2,890.4	1,236.5	26,894.1

[1] Floating rate loans were classified on the basis of year-end rates.

The Parent Company effected early repayment of a loan in the “above 10%” category on February 20, 1999. The loan amounted to Lit. 1,000 billion and was subject to interest at 10.625%.

In order to hedge long-term interest rate risk and reduce the overall cost of borrowing, the Parent Company has entered into specific hedges for underlying loans totaling Lit. 7,350 billion (zero cost collars covering Lit. 3,400 billion, basis risk swaps hedging Lit. 800 billion and swaps covering Lit. 3,150 billion). Other hedges covering Lit. 2,600 billion include Lit. 1,500 billion relating to interest risk during the first half of 1999.

The following table shows a breakdown of long-term borrowing by maturity:

In billions of Lire

Year of maturity	
1999	7,657.1
2000	4,651.9
2001	1,547.5
2002	2,346.1
2003	2,839.9
2004 and beyond	7,851.6
Total	26,894.1

Advances received - Lit. 1,886.3 billion

Advances received relate to sums paid to the Parent Company by customers at the time of subscribing to electricity supply contracts, in addition to amounts received in the form of advance contributions for connections and other contributions. The increase of Lit. 20.5 billion with respect to the previous year was due to greater advances and deposits relating to ordinary supply contracts.

Trade - Lit. 4,956.8 billion

Such payables relate to the supply of electricity, fuel, materials and equipment, and to contract work or other services carried out prior to December 31, 1998. The balance is down Lit. 391.6 billion with respect to December 31, 1997.

Unconsolidated subsidiaries and associated companies - Lit. 3.9 billion

This item declined Lit. 26.9 billion and, as at December 31, 1998, refers solely to the Parent Company's debt to SOTACARBO.

Taxes - Lit. 1,374.7 billion

The following table shows a breakdown of the item and a comparison with 1997:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
VAT	233.8	246.5	-12.7
Withholding taxes	200.1	202.5	-2.4
Revenue tax and surtax on electricity consumption	158.4	147.7	+10.7
Tax on net equity	-	86.0	-86.0
Income taxes	774.7	-	+774.7
Other	7.7	9.8	-2.1
Total	1,374.7	692.5	+682.2

The increase represents the balance of the reversal from a credit to a debit situation regarding income taxes with respect to 1997, and the abolition of the tax on net equity following the introduction of IRAP.

As regards the Parent Company, the fiscal year 1990 and those subsequent to 1991 have as yet to be closed.

Social security - Lit. 1,101.4 billion

The increase of Lit. 598.2 billion is principally due to recognition during the year of a payable owing to FONDENEL, totaling Lit. 690.4 billion as at December 31, 1998, as previously mentioned in the note to “Provisions for pensions and similar”.

Other - Lit. 2,241.6 billion

Other accounts payable include various liabilities as shown in the following table:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Due to bondholders as interest, other payments and redemption of securities	463.4	572.8	-109.4
Due to customers as reimbursement and other items	409.6	341.8	+67.8
Due to employees and employees’ associations	700.1	404.4	+295.7
Due as water rates, contributions for urban infrastructure work, etc.	494.6	560.6	-66.0
Sundries	173.9	243.5	-69.6
Total	2,241.6	2,123.1	+118.5

The decrease in “Amounts due to bondholders as interest” relates to the reduction in borrowing and the fall in interest rates.
“Amounts due to employees” rose as a result of the combined effect of an increase in severance indemnities to be paid at year-end (linked to the increased number of staff leaving the Group during 1998), and a decrease in sums owing to employees’ Associations.

Electricity Industry Equalization Fund - Lit. 2,529.9 billion
This item represents the Parent Company’s liability in relation to the thermal surcharge billed to customers and charges to be borne by Enel. In accordance with CIP Directive 24/1983, the above sums are to be settled on a bimonthly basis by offsetting the liability against the amounts due from the Fund, as reported under assets.

Accrued payables and deferred income - Lit. 875.4 billion
The following table shows a breakdown of the item and a comparison with 12.31.97:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Accrued payables:			
- interest expense	390.0	602.2	-212.2
- increase in the value of the principal relating to index-linked bonds	8.3	13.7	-5.4
- other	8.4	11.9	-3.5
Total accrued payables	406.7	627.8	-221.1
Deferred income due to premiums on bond issues	24.9	7.1	+17.8
Other deferred income:			
- grants from third parties	391.5	192.8	+198.7
- interest income	37.6	49.7	-12.1
- other	14.7	34.2	-19.5
Total deferred income	468.7	283.8	+184.9
TOTAL	875.4	911.6	-36.2

The decrease of Lit. 212.2 billion in interest expense was due primarily to the decline in interest rates and the reduction in borrowing.
The increase in “Grants from third parties” relates to the volume of activity over the year.

The following table provides a breakdown of accounts payable and accrued payables by maturity.

In billions of Lire	1 year	Falling due within 2-5 years	Over 5 years	Total
BORROWING				
Bonds	4,748.5	6,076.9	6,125.8	16,951.2
Long-term bank loans	2,908.6	5,308.5	1,725.8	9,942.9
Short-term bank loans	744.0	-	-	744.0
Total borrowing	8,401.1	11,385.4	7,851.6	27,638.1
OTHER ACCOUNTS PAYABLE				
Advances received	1,802.1	4.5	79.7	1,886.3
Trade	4,836.5	63.6	56.7	4,956.8
Unconsolidated subsidiaries and associated companies	3.9	-	-	3.9
Taxes	1,374.7	-	-	1,374.7
Social security	582.1	515.0	4.3	1,101.4
Electricity Industry Equalization Fund	2,529.9	-	-	2,529.9
Other	1,792.3	403.9	45.4	2,241.6
Total other accounts payable	12,921.5	987.0	186.1	14,094.6
Accrued payables	406.7	-	-	406.7
TOTAL	21,729.3	12,372.4	8,037.7	42,139.4

Memorandum accounts - Lit. 174,990.9 billion

The memorandum accounts report the guarantees, sureties, risks and commitments assumed by the Group, as follows:

In billions of Lire

	as at 12.31.**1998**	as at 12.31.**1997**	**1998-1997**
Guarantees given:			
- sureties securing loans granted to associated companies	-	367.0	-367.0
- sureties guaranteeing third parties	1.6	-	+1.6
Total	1.6	367.0	-365.4
Other:			
- commitments to suppliers of:			
- electricity	125,751.0	98,590.0	+27,161.0
- fuel	41,067.4	54,036.0	-12,968.6
- sundry supplies	4,302.1	2,942.7	+1,359.4
- contract work	3,055.5	1,310.0	+1,745.5
- commitments on forward currency purchases	251.2	493.4	-242.2
- commitments on forward currency sales	181.7	433.7	-252.0
- sundry guarantees to lending institutions	335.5	365.6	-30.1
- third party securities received as security	1.2	1.7	-0.5
- third party securities held in safe custody or on deposit	43.7	-	+43.7
Total	174,989.3	158,173.1	+16,816.2
TOTAL	174,990.9	158,540.1	+16,450.8

Commitments to suppliers of electricity break down as follows:

In billions of Lire	Domestic suppliers	Overseas suppliers	Total
Period:			
1999-2003	38,569	8,399	46,968
2004-2008	39,434	4,374	43,808
2009-2013	20,001	1,470	21,471
2014 and beyond	13,504	-	13,504
Total	111,508	14,243	125,751

Commitments to domestic suppliers relate to subsidized electricity, as regulated by CIP Directive 6/1992.

Commitments to suppliers of fuel breakdown as follows:

In billions of Lire	Natural gas	Fuel oil	Coal	Logistics	Total
Period:					
1999-2003	10,130	2,502	503	275	13,410
2004-2008	8,480	472	-	-	8,952
2009-2013	8,480	-	-	-	8,480
2014 and beyond	10,225	-	-	-	10,225
Total	37,315	2,974	503	275	41,067

The above amounts are calculated on the basis of parameters and exchange rates valid at year-end, given that the prices of such supplies, for the most part denominated in foreign currency, are variable.

Contingent liabilities not reported in the Balance Sheet

Issues relating to exposure to electrical and magnetic fields

Parliament's Environment Committee has completed its examination of Draft Bill 4816 regarding electromagnetic pollution, presented by the government on April 24, 1998. The aim of the legislation is to protect workers and the general public from exposure to electromagnetic fields. As regards Enel, the new law establishes measures providing protection from electromagnetic fields created by power lines.

The Committee has introduced substantial changes to the original text.

Article 9 of the amended bill now requires that the electricity network is to be brought into line with new limits within a maximum of 12 years, with expenses to be borne by the owner of the network.

In accordance with art. 2, section 12 of Law 481/95, the Authority has 60 days following approval of the relevant project in which to determine the costs strictly related to the work to be carried out, and to establish the criteria, terms and conditions for their eventual recovery.

The Authority's decisions must, however, be in line with the legislation regulating the reorganization of the electricity industry (point 8 of art. 3 regarding "The Operator of the national transmission network"), which states that work and investment carried out by the owners of transmission networks should be adequately remunerated, taking into account "the regulatory requirements to be met by operators".

Litigation

This section covers the most important ongoing litigation, primarily regarding nuclear-related charges, tariffs and the environment.

The Parent Company has appealed to the Lombardy Regional Administrative Court against the Authority's resolution 58/1998, which reduced the value of reimbursements for nuclear-related charges due to Enel by approximately Lit. 390 billion.

The Court's sentence number 612, dated February 18, 1999, recognized a large part of the claims put forward by Enel, confirming the Parent Company's right to be fully reimbursed for the cost of enriching fuel for the Trino Vercellese 2 Plant and for the cost of certifying the companies, and to be paid interest in accordance with the terms previously established by the relevant CIP directive. The Court did not, however, accept the Parent Company's claim for reimbursement of the cost of site location studies for the nuclear plants to have been built in Lombardy and Apulia.

The total value of the charges not recognized by the above sentence is approximately Lit. 110 billion. The Parent Company still has time to appeal against the sentence.

With regard to pricing, the Authority has appealed against the Lombardy Regional Administrative Court's sentence of December 20, 1997 relating to resolution 70/1997, which reviewed the contributions to be paid to Enel for imported electricity. The Court's sentence fully upheld Enel's appeal against the Authority's resolution and ruled that, in establishing the contributions for electricity imports, the Authority should have taken into account the higher cost to be met by Enel as a result of existing long-term guaranteed supply contracts.

The Court requested that the Authority appropriately amend its resolution.
On the subject of long-term overseas electricity supply contracts, Enel has requested that the International Chamber of Commerce in Paris appoint an arbitrator to replace the imbalances present in the contracts between the Parent Company and the Swiss producer, ATEL, with more equitable terms and conditions.
A number of consumers' groups and corporate customers, which consume large quantities of electricity, have contested the Authority's bimonthly reviews of the tariff component linked to fuel price trends.
In this regard, on March 19, 1999, the Lombardy Regional Administrative Court turned down all the appeals brought by consumers' associations against the Authority's resolution 28 of March 25, 1998. The resolution recognized and confirmed the price increases approved by CIP Directive 15/1993.
Again with regard to pricing, further positive sentences have been issued in relation to so-called "price quotas". Following the issue of sentence 174 of May 20, 1998, with which the Constitutional Court confirmed the legitimacy of Law 577/1996, permitting the application of "price quotas" until June 30, 1996, joint sessions of the Supreme Court have passed two further sentences. The Supreme Court confirmed the opinion of the Constitutional Court, annulling previous unfavorable sentences issued by Justices of the peace (who had cancelled application of the "price quotas" with effect from January 1, 1994). As things stand, the possibility of Enel having to bear future liabilities is therefore remote.
A number of disputes are pending in relation to urban planning and environmental matters, linked to the construction and operation of several generating plants and power lines.
A negative outcome could generate liabilities, which are however currently not quantifiable and therefore not as yet the subject of "Provisions for legal disputes and other contingencies". Despite the fact that it is not possible to definitely exclude unfavorable outcomes in a limited number of cases, it is the opinion of the Group's lawyers that negative outcomes are in general unlikely to be such as to compromise the construction and operation of the plants and power lines in question.
Any future additional charges to be met by Enel in relation to the above would, in most cases, be considered additional capital expenditure and therefore financed from future earnings.

Foreign currency options

During the year, the Parent Company entered into a number of options contracts with the aim of hedging exchange rate risk with regard to transactions denominated in US dollars and Swiss francs, relating to the purchase of fuel and electricity outside the Euro zone. A valuation of contracts in existence at December 31, 1998 (most of which are due to expire during the first half of 1999), on the basis of both year-end exchange rates and those current in early 1999, would produce marginal gains and losses.

Revenues - Lit. 41,711.9 billion
The principal items in this category are as follows:

Sales and services - Lit. 37,815.2 billion
Tariff charges - Lit. 25,680.7 billion
This item rose Lit. 682.2 billion. A breakdown of tariff charges in relation to the amount of electricity supplied is provided in the following table:

In billions of Lire	Tariff charges billed and to be billed			
	1998	1997	1998-1997	
Direct sales to end-users:				
- public lighting	558.8	541.4	+17.4	+3.2%
- household use	7,259.7	7,156.7	+103.0	+1.4%
- other:				
- up to 30 kW	6,457.6	6,272.1	+185.5	+3.0%
- from 30 to 500 kW	5,624.1	5,398.3	+225.8	+4.2%
- over 500 kW	5,271.8	5,142.3	+129.5	+2.5%
Total	25,172.0	24,510.8	+661.2	+2.7%
Sales to other electricity companies and distributors	508.7	487.7	+21.0	+4.3%
Total tariff charges	25,680.7	24,998.5	+682.2	+2.7%

With the exception of electricity sold to overseas distributors, totaling Lit. 18.3 billion, the above revenues are earned entirely in Italy and relate to the following quantities:

In millions of kWh	Quantity of electricity billed and to be billed		
	1998	1997	1998-1997
Direct sales to end-users:			
- public lighting	4,656	4,524	+2.9%
- household use	50,085	49,521	+1.1%
- other:			
- up to 30 kW	29,553	28,503	+3.7%
- from 30 to 500 kW	44,532	42,551	+4.7%
- over 500 kW	87,997	85,834	+2.5%
Total	216,823	210,933	+2.8%
Sales to other electricity companies and distributors	9,345	8,329	+12.2%
Total quantity of electricity	226,168	219,262	+3.1%

The 2.7% increase in tariff charges is below the 3.1% increase in the quantity sold, as the greater consumption corresponded with price categories with lower unit tariffs. Average revenues per kWh amounted to Lit. 113.55 against Lit. 114.01 in 1997, as analyzed below:

Lire/kWh

	1998	1997	1998-1997
Direct sales to end-users:			
- public lighting	120.02	119.67	+0.35
- household use	144.95	144.52	+0.43
- other:			
- up to 30 kW	218.51	220.05	-1.54
- from 30 to 500 kW	126.29	126.87	-0.58
- over 500 kW	59.91	59.91	-
Average revenue	116.09	116.20	-0.11
Sales to other electricity companies and distributors	54.44	58.55	-4.11
Overall average revenue per unit	113.55	114.01	-0.46

Contributions from the Electricity Industry Equalization Fund - Lit. 12,063.2 billion
This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Contributions for fuel costs	6,951.3	7,452.9	-501.6
Contributions for electricity purchases and subsidies for new generation from renewable energy sources, etc.	5,111.9	5,256.1	-144.2
Total	12,063.2	12,709.0	-645.8

The reduction in "Contributions for fuel costs" essentially reflected the fuel price trends on which the Fund bases the calculation of amounts to be reimbursed. The decrease in "Contributions for electricity purchases and subsidies for new production from renewable energy sources" relates primarily to a Lit. 310 billion reduction in contributions for electricity purchased from overseas producers, following application of the new reimbursement criteria adopted by the Fund. This was only partially compensated for by greater contributions for purchases from domestic producers (up Lit. 122 billion) and for production from renewable energy sources (up Lit. 41 billion), as a result of the increased quantity of subsidized electricity purchased and produced.

Capitalized costs and expenses - Lit. 1,923.9 billion
This item includes the following items:

In billions of Lire

	1998	1997	1998-1997
Labor costs	818.2	893.9	-75.7
Use of stocks and other charges	1,105.7	1,114.8	-9.1
Total	1,923.9	2,008.7	-84.8

Other income and revenues - Lit. 1,975.5 billion
Contributions received for connection costs - Lit. 1,090.1 billion
This item relates entirely to the electricity segment and consists of contributions paid to the Parent Company by customers to cover charges for new connections and the repositioning of equipment, and handling charges for new contracts and transfers. The value of the item is up 6% on the previous year.

Other - Lit. 885.4 billion
This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Amounts billed to Electricité de France	-	292.4	-292.4
Electricity sold on an exchange basis and revenues from delivery on behalf of third parties	126.1	143.8	-17.7
Plant maintenance and repair	134.5	132.1	+2.4
Damages and similar	161.4	120.0	+41.4
Sums recharged to WIND Telecomunicazioni SpA	58.3	-	+58.3
Collection of previously written-off sums due from customers	39.6	54.1	-14.5
Sales of sundry material	80.9	112.6	-31.7
Contributions for connections, voltage increases and other contributions	66.6	27.9	+38.7
Other	218.0	213.7	+4.3
Total	885.4	1,096.6	-211.2

"Amounts billed to Electricité de France" were eliminated following Enel's withdrawal from the NERSA project.

Operating costs - Lit. 32,107.7 billion
Operating costs include the following items:

Materials and fuel - Lit. 13,853.2 billion
This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Electricity purchased from other producers	6,306.1	6,073.1	+233.0
Fuel	6,283.1	7,434.1	-1,151.0
Materials, sundry equipment and other purchases	1,264.0	1,248.1	+15.9
Total	13,853.2	14,755.3	-902.1

The increase in the cost of electricity purchased is linked primarily to the greater quantity of subsidized electricity bought from domestic producers, as shown in the following table:

	Billions of Lire	Millions of kWh	Billions of Lire	Millions of kWh	Billions of Lire	Millions of kWh
	1998		1997		1998-1997	
Domestic purchases	3,552.5	31,445	3,341.5	26,623	+211.0	+4,822
Overseas purchases	2,642.8	40,565	2,617.2	38,698	+25.6	+1,867
Total	6,195.3	72,010	5,958.7	65,321	+236.6	+6,689
Electricity purchased on an exchange basis	110.8		114.4		-3.6	
Total	6,306.1		6,073.1		+233.0	

During 1998, 57.1% of the fuel purchased was fuel oil, 31.3% was natural gas, 10.5% coal and the remaining 1.1% other types of fuel (diesel, orimulsion and coke-oven gas). The significant decline was due to the reduction in fuel prices over the year, the different mix of fuels used and the lower quantities purchased.

Services - Lit. 1,750.0 billion

This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Maintenance and repairs	593.6	728.2	-134.6
Amounts billed by NERSA	-	292.4	-292.4
Telephone, postage and telegraph	260.2	254.9	+5.3
Staff canteens	140.6	148.6	-8.0
Data processing, legal and other consultants' fees	187.9	178.5	+9.4
Security, cleaning and other general services	125.7	137.0	-11.3
Travel expenses	61.6	59.4	+2.2
Expenses and services linked to customers	49.3	49.6	-0.3
Other	331.1	371.3	-40.2
Total	1,750.0	2,219.9	-469.9

Amounts billed by NERSA were eliminated following Enel's withdrawal from the project. The overall decrease of Lit. 177.5 billion with respect to 1997 reflects the benefits of the rigorous cost containment measures adopted.

Leases and rentals - Lit. 477.1 billion

This item relates mainly to water rates (Lit. 225.1 billion), property rentals and leases (Lit. 82.1 billion), license fees paid to the government (Lit. 87.1 billion) and lease costs (Lit. 67.0 billion). The Lit. 53.3 billion increase with respect to 1997 was primarily due to increased expenditure on vehicle leasing following the decision to outsource management of the car fleet.

Personnel - Lit. 8,025.1 billion

The decrease of Lit. 806 billion with respect to the previous year derives from the abolition of National Health contributions, following the introduction of IRAP, and the reduction in the average headcount.

The following table shows the average headcount by employee category, compared with the previous year, and the situation as at December 31, 1998:

	Average headcount			Headcount
	1998	**1997**	**1998-1997**	as at 12.31.**1998**
Managers	917	1,206	-289	842
Supervisors	5,403	5,492	-89	5,334
White-collar	46,631	48,799	-2,168	46,020
Blue-collar	33,447	35,300	-1,853	32,742
Total	86,398	90,797	-4,399	84,938

Amortization, depreciation and write-downs - Lit. 6,296.8 billion

Amortization of intangible assets - Lit. 45.3 billion
This item increased by Lit. 18.9 billion and relates primarily to software applications.

Depreciation of tangible assets - Lit. 5,990.9 billion
This item increased by Lit. 321.9 billion with respect to 1997, due to additional plant entering service during 1998 and the application of full depreciation rates to those that entered service in 1997.

Fixed asset write-downs - Lit. 19.6 billion
Write-downs relate primarily to the elimination of the cost of studies and projects cancelled during the year.

Provisions for doubtful accounts - Lit. 241.0 billion
This item increased by Lit. 134.8 billion due to the greater provisions made by the Parent Company, as described in the note to "Trade receivables".

Changes in inventory - Lit. 568.1 billion

The movement reflects the decrease in stocks previously described in the note to "Inventories".

Provisions for risks and charges - Lit. 400.7 billion

This item relates to "Provisions for legal disputes and other contingencies" previously described in the notes to the Balance Sheet.

Other provisions - Lit. 284.9 billion

This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Supplementary pension fund for managers	199.7	-	+199.7
Decommissioning of inactive nuclear plants	42.4	45.1	-2.7
Treatment and disposal of nuclear fuel	42.8	42.9	-0.1
Total	284.9	88.0	+196.9

Such provisions are fully described in the notes to the corresponding Balance Sheet items.

Other operating costs - Lit. 451.8 billion

This item primarily includes ICI (property tax) and other local taxes, totaling Lit. 244.5 billion, amounts due to the Equalization Fund in accordance with CIP Directive 24/1983 and subsequent directives, totaling Lit. 54.3 billion, the contribution to the Authority's running costs, amounting to Lit. 23.3 billion, and contingent liabilities of an ordinary nature, totaling Lit. 47.0 billion.
The balance rose Lit. 12.5 billion mainly due to increases in local taxes (in particular the tax on pollution emissions).

The item also includes Directors' and Statutory Auditors' emoluments and contributions paid by the Parent Company in relation to appointments in Group companies. Such sums amount to Lit. 2,286,529,833 and break down as follows:
- Board of Directors: Lit. 2,071,583,501;
- Board of Statutory Auditors: Lit. 214,946,332.

Financial income (expense), net - Lit. -1,479.6 billion
This item relates to:

Investment and interest income - Lit. 524.1 billion

This item breaks down by category as follows:

From accounts receivable held as other long-term assets - Lit. 199.2 billion
The item includes:

In billions of Lire

	1998	1997	1998-1997
Interest on amounts due as reimbursement of nuclear-related charges	105.3	198.0	-92.7
Interest on amounts due from INPS in the form of contributions relief for employees on Southern Italy	62.5	74.8	-12.3
Other	31.4	26.0	+5.4
Total	199.2	298.8	-99.6

The decrease in interest on amounts due as reimbursement of nuclear-related charges results from the gradual collection of the credits due and the reduction in the applicable interest rate.

Other - Lit. 306.3 billion
This item rose Lit. 187.7 billion with respect to the previous year, primarily due to the interest earned on the increased liquidity generated during the period.

Interest and related charges - Lit. 2,003.7 billion

This item breaks down as follows:

In billions of Lire

	1998	1997	1998-1997
Interest and other charges on long-term loans:			
- bonds:			
- interest	945.1	1,208.4	-263.3
- premiums on redemption	38.5	59.3	-20.8
Total	983.6	1,267.7	-284.1
- bank loans	870.1	1,209.0	-338.9
Interest on short-term bank loans	35.5	69.5	-34.0
Total	1,889.2	2,546.2	-657.0
Provisions for estimated exchange rate losses	-	39.1	-39.1
Charges and discounts on bond issues and loans	17.6	15.2	+2.4
Interest on accounts payable to associated companies	-	3.7	-3.7
Interest on other interest-bearing accounts payable and other financial charges	96.9	17.2	+79.7
Total	2,003.7	2,621.4	-617.7

The interest paid on long- and short-term borrowing declined by Lit. 657.0 billion due to the reduction in borrowing and the fall in interest rates.

Extraordinary income (expense), net - Lit. -321.0 billion
The item includes the following:

Extraordinary income - Lit. 821.6 billion
The amount relates primarily to deferred tax assets (Lit. 587.9 billion) recognized following application of the new accounting principle, as described in the section on accounting policies, amounts received as a result of court judgements (Lit. 108.6 billion) and contingent assets (Lit. 95 billion).

Extraordinary expense - Lit. 1,142.6 billion
This item includes Lit. 386.0 billion relating to the temporary offer of early retirement packages, forming part of the Group's reorganization, extraordinary provisions of Lit. 522.6 billion for legal disputes and other contingencies, the recognition of a one-off addition to "Provisions for pensions and similar obligations", totaling Lit. 166.1 billion, and the accrued portion of solidarity contributions (Lit. 42.7 billion).

Income tax expense - Lit. 3,519.5 billion
The Lit. 431.1 billion increase relates primarily to the IRPEG paid on the greater taxable income in 1998.
Tax expense for 1998 breaks down as follows:

In billions of Lire	
Current tax	2,784.9
Deferred tax expense	975.5
Deferred tax income	(240.9)
Total	3,519.5

The Income Statement shows net income of Lit. 4,286.1 billion against the Lit. 3,327.4 billion of 1997.

Administrative and accounting unbundling

In order to define the criteria allowing the accounting separation of electrical activities, Enel is awaiting the Authority's directives, to be issued in accordance with Law 481/1995 and the "Licensing decree" of December 1995.

On May 7, 1998 the Authority published a consultation document entitled "Guidelines for the administrative and accounting separation of electricity companies", setting out the basic criteria on which the relevant directives are to be based. The document explains the assumptions behind such a separation and describes the general rules and principles to be applied, providing accompanying examples of balance sheet and statement of income schedules.

Enel expressed its observations regarding the document's contents, putting forward a number of proposals, during the relevant hearing held at the Authority's offices on May 29, 1998.

In the meantime, however, the legislation regarding the reorganization of the electricity industry, requiring the spin-off of the principal areas of activity to newly established separate companies, significantly reduces the impact of the above directives.

Year 2000 compliance

The aims of Enel's "Year 2000 project" are:
- to minimize the probability of critical events linked to the advent of the new millennium;
- to contribute to the spread of accurate information to the general public.

The project is supervised by a specially appointed coordinator, with similar initiatives adopted for each of Enel's operating divisions and units (the three divisions and the six units providing technical and management services).

The nine coordinators form a Committee, chaired by the Director of Information Systems, appointed by the General Manager and having responsibility for the project at Group level. The Committee establishes standards and guidelines, ensures the sharing of experience and solutions, plans and co-ordinates the project and reports to senior management.

The Committee's members are aided by a number of corporate functions. CESI has been engaged to ensure the uniformity of the methods adopted and the certification of the results obtained.

The project includes the drawing up of an inventory of all systems potentially subject to "problems linked to the year 2000", to be followed by their evaluation and eventual modification or replacement, integrated trials and the entry into service of new systems.

The following systems are involved:
- computers relating to processes and management and scientific information systems, taking into account hardware, firmware, basic software and software applications;
- machinery and equipment containing embedded systems, involved in grid control (distribution), protection and automation systems, SCADA systems, environmental control systems, plant and equipment installed in buildings, office equipment, etc.;
- telecommunications.

The project also includes an evaluation of the impact of the following, with a view to "year 2000 certification":

- relations with third parties as a result of interconnections within the electricity system (overseas and local producers, independent domestic producers);
- suppliers;
- principal customers.

The planning of the project has taken into account the different degrees of importance of the various systems.
Each division and unit has drawn up its own plans for implementing and controlling the project. The collection and integration of the different projects is currently underway, in accordance with standardized procedures. In general, it is planned that all mission-critical systems will be "year 2000 compliant" by July 1999, whilst work on other systems will be completed by the end of 1999. Progress on the single projects is in line with expectations.
Each division and unit is also drawing up plans to deal with any plant malfunctions occurring as a result of the year 2000. The plans will be updated throughout 1999, in order to ensure that they take account of changes in operating requirements.

Consolidated Balance Sheet in Euro

In millions of Euro		Sub-total	Total		Sub-total	Total
Assets		as at 12.31.**1998** [1]			as at 12.31.**1997** [1]	
A) UNPAID CALLED-UP SHARE CAPITAL						
B) FIXED ASSETS						
I. Intangible assets						
6) Work in process and advances		16.1			21.0	
7) Other		46.4			61.3	
			62.5			82.3
II. Tangible assets						
1) Property		7,463.3			7,380.8	
2) Plant and machinery		27,234.2			25,487.0	
3) Industrial and commercial equipment		149.0			162.8	
4) Other		243.9			298.5	
5) Under construction		3,998.7			5,999.7	
			39,089.1			39,328.8
III. Investments and other long-term assets						
1) Equity investments in:						
a) unconsolidated subsidiaries		159.3			3.3	
b) associated and other companies		5.3			5.7	
		164.6			9.0	
	Due within 12 months			Due within 12 months		
2) Receivables:						
d) third parties	99.7	616.4		100.1	588.2	
e) Electricity Industry Equalization Fund as reimbursement of nuclear-related charges	500.7	922.5		92.3	1,029.5	
		1,538.9			1,617.7	
3) Other securities		0.7			5.6	
			1,704.2			1,632.3
Total fixed assets			40,855.8			41,043.4
C) CURRENT ASSETS						
I. Inventories						
1) Materials and fuel		552.9			848.9	
3) Contract work in progress		17.5			18.9	
5) Advances		0.2			18.4	
			570.6			886.2
	Due beyond 12 months			Due beyond 12 months		
II. Receivables						
1) Trade	238.4	2,751.9		234.3	2,728.6	
2) Unconsolidated subsidiaries		29.5		0.0	0.0	
3) Associated companies		1.1		0.0	3.8	
5) Other	5.2	409.7		1.0	566.2	
6) Electricity Industry Equalization Fund		1,838.0			3,530.2	
			5,030.2			6,828.8
III. Short-term investments						
6) Marketable securities		85.8			70.3	
7) Time deposits		356.8				
			442.6			70.3
IV. Cash and cash equivalents						
1) Bank and post office deposits		1,116.6			199.0	
3) Cash and notes on hand		0.7			0.8	
			1,117.3			199.8
Total current assets			7,160.7			7,985.1
D) ACCRUED RECEIVABLES AND PREPAID EXPENSES						
Accrued receivables			21.2			15.1
Prepaid expenses:						
- issue discounts		8.8			13.3	
- other		121.3			93.0	
			130.1			106.3
Total accrued receivables and prepaid expenses			151.3			121.4
TOTAL ASSETS			48,167.8			49,149.9

[1] Exchange rate: Lire/Euro = 1,936.27

In millions of Euro		Sub-total	Total		Sub-total	Total
Liabilities and shareholder's equity		as at 12.31.**1998** [1]			as at 12.31.**1997** [1]	
A) SHAREHOLDER'S AND MINORITY EQUITY						
I. Share capital			6,262.7			6,262.7
IV. Legal reserve			129.3			104.1
VII. Other reserves:						
Shareholder contribution for future capital increases		992.6			992.6	
Restatement reserve (Law 292/93)		5,478.2			5,478.2	
Other		20.1			20.1	
Consolidation reserve		8.9			8.7	
			6,499.8			6,499.6
VIII. Retained earnings			3,425.1			2,207.9
IX. Net income			2,213.6			1,718.5
Total shareholder's equity			18,530.5			16,792.8
Minority interest			6.8			12.8
Total shareholder's and minority equity			18,537.3			16,805.6
B) PROVISIONS FOR RISKS AND CHARGES						
1) Pensions and similar		1,040.6			1,315.0	
2) Income taxes		2,346.7			2,298.6	
3) Other		1,945.5			1,916.8	
			5,332.8			5,530.4
C) PROVISION FOR EMPLOYEE SEVERANCE INDEMNITIES			2,292.4			2,438.8
	Due beyond 12 months			Due beyond 12 months		
D) ACCOUNTS PAYABLE						
1) Bonds	6,302.2	8,754.6		7,663.3	8,463.4	
2) Banks:						
- long-term loans	3,632.9	5,135.1		6,866.1	8,152.8	
- short-term loans		384.2			606.8	
		5,519.3			8,759.6	
4) Notes payable					0.1	
5) Advances received	43.5	974.2		8.8	963.6	
6) Trade	62.1	2,560.0		99.6	2,762.2	
8) Unconsolidated subsidiaries and associated companies		2.0			15.9	
11) Taxes		710.0			357.6	
12) Social security	268.2	568.8		13.0	259.9	
13) Other	232.0	1,157.7		376.0	1,096.5	
14) Electricity Industry Equalization Fund		1,306.6			1,225.5	
Total accounts payable			21,553.2			23,904.3
E) ACCRUED PAYABLES AND DEFERRED INCOME						
Accrued payables			210.0			324.2
Deferred income:						
- premium on bond issues		12.9			3.7	
- other		229.2			142.9	
			242.1			146.6
Total accrued payables and deferred income			452.1			470.8
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY			48,167.8			49,149.9
MEMORANDUM ACCOUNTS						
Guarantees given		0.8			189.5	
Other		90,374.4			81,689.6	
Total memorandum accounts			90,375.2			81,879.1

[1] Exchange rate: Lire/Euro = 1,936.27

Consolidated Income Statement in Euro

In millions of Euro	Sub-total	Total	Sub-total	Total
		1998 (1)		**1997** (1)
A) REVENUES				
1) Sales and services:				
- tariff charges	13,263.0		12,910.6	
- contributions from the Electricity Industry Equalization Fund	6,230.1		6,563.7	
- other	36.8		43.4	
		19,529.9		19,517.7
3) Change in contract work in progress		-1.4		-3.5
4) Capitalized costs and expenses		993.6		1,037.4
5) Other income and revenues:				
- contributions received for connection costs	563.0		531.1	
- other	457.3		566.3	
		1,020.3		1,097.4
Total revenues		21,542.4		21,649.0
B) OPERATING COSTS				
6) Materials and fuel		7,154.6		7,620.5
7) Services		903.8		1,146.5
8) Leases and rentals		246.4		218.9
9) Personnel:				
a) wages and salaries	2,794.5		2,864.4	
b) social security contributions	894.4		1,126.1	
c) employee severance indemnities	250.0		259.1	
d) pensions and similar	71.3		173.1	
e) other	134.6		138.3	
		4,144.8		4,561.0
10) Amortization, depreciation and write-downs:				
a) amortization of intangible assets	23.4		13.6	
b) depreciation of tangible assets	3,094.1		2,927.8	
c) fixed asset write-downs	10.1		68.6	
d) provisions for doubtful accounts	124.5		54.8	
		3,252.1		3,064.8
11) Changes in inventory		293.4		277.4
12) Provisions for risks and charges		206.9		0.2
13) Other provisions		147.1		45.4
14) Other operating costs		233.3		226.9
Total operating costs		16,582.4		17,161.6
Operating income (A-B)		4,960.0		4,487.4
C) FINANCIAL INCOME AND EXPENSE				
16) Investment and interest income:				
a) from accounts receivable held as other long-term assets:				
- other	102.9		154.3	
b) from fixed asset investments not representing equity investments	0.1		0.2	
c) from marketable securities not representing equity investments	9.6		3.7	
d) other:				
- other	158.2		61.3	
		270.8		219.5
17) Interest and related charges:				
- associated companies			1.9	
- other	1,034.8		1,351.9	
		1,034.8		1,353.8
Total financial income (expense), net		-764.0		-1,134.3

(1) Exchange rate: Lire/Euro = 1,936.27

In millions of Euro	Sub-total	Total	Sub-total	Total
	1998 (1)		**1997** (1)	
D) ADJUSTMENTS TO INVESTMENTS				
19) Write-downs of:				
a) equity investments	0.6		90.7	
b) fixed asset investments not representing equity investments	0.1		0.2	
		0.7		90.9
Total adjustments to investments		-0.7		-90.9
E) EXTRAORDINARY INCOME AND EXPENSE				
20) Income:				
- other	424.3		667.2	
		424.3		667.2
21) Expense:				
- prior years' taxes	-		0.1	
- other	590.1		617.8	
		590.1		617.9
Total extraordinary income and expense, net		-165.8		49.3
Income before income taxes and minority interest (A-B+C+D+E)		4,029.5		3,311.5
22) Income tax expense		1,817.7		1,595.0
Net income before minority interest		2,211.8		1,716.5
Minority interest		1.8		2.0
NET INCOME		2,213.6		1,718.5

(1) Exchange rate: Lire/Euro = 1,936.27

List of companies within the consolidation area as at December 31, 1998

Company name	Registered office	Business		Share capital as at 12.31.1998	Group interest	Held by	%
Parent Company:							
Enel SpA	Rome		Lit	12,126,150,379,000	-		
Subsidiaries:							
CESI SpA Centro Elettrotecnico Sperimentale Italiano	Milan	Studies and Research	Lit	16,000,000,000	65.03	Enel SpA	65.03
CONPHOEBUS Scrl	Catania	Studies and Research	Lit	1,506,000,000	100.00	Enel SpA	100.00
ELETTROAMBIENTE SpA	Rome	Utilization of solid urban waste	Lit	500,000,000	100.00	Enel SpA	81.00
						Sei SpA	19.00
ISMES SpA	Bergamo	Studies and Research	Lit	15,000,000,000	100.00	Enel SpA	100.00
Sei SpA	Rome	Estate Management	Lit	186,000,000,000	100.00	Enel SpA	99.89
						ISMES SpA	0.11
SOCIETÀ IMMOBILIARE DALMAZIA TRIESTE SpA	Rome	Estate Management	Lit	250,000,000	100.00	Enel SpA	61.20
						Sei SpA	38.80

List of unconsolidated subsidiaries and associated companies as at December 31, 1998

Company name	Registered office	Business		Share capital as at 12.31.1998	Group interest	Held by	%
Subsidiaries:							
CISE Tecnologie Innovative Srl	Segreate (MI)	Research	Lit	1,200,000,000	100.00	Enel SpA	100.00
Enel Produzione SpA	Rome	Electricity	Lit	1,000,000,000	100.00	Enel SpA	100.00
So.l.e. SpA	Rome	Public lighting equipment and service	Lit	200,000,000	100.00	Enel SpA	99.00
						CISE Tecnologie Innovative Srl	1.00
WIND Telecomunicazioni SpA	Rome	Fixed and mobile telephony	Lit	600,000,000,000	51.00	Enel SpA	51.00
CONSORZIO SICILTECH	Palermo	Development of small and medium-sized companies in Sicily	Lit	10,000,000	99.00	ISMES SpA	99.00
Associated companies:							
SOTACARBO SpA	Portoscuso	Development of coal-utilization technology	Lit	9,000,000,000	25.00	Enel SpA	25.00
ISTEDIL SpA	Rome	Construction safety technology	Lit	2,000,000,000	55.00	ISMES SpA	55.00
CONSORZIO ISAS	Matera	Management training and other support services	Lit	10,000,000	37.00	ISMES SpA	37.00
CONSORZIO CORARC	Seriate (BG)	Coordination of scientific research	Lit	52,000,000	50.00	ISMES SpA	50.00
CONSORZIO PROGETTO TORRE DI PISA	Pisa	Coordination of Tower of Pisa restoration studies	Lit	60,000,000	24.98	ISMES SpA	24.98
CONSORZIO QSEAL	Milan	Software quality certification	Lit	4,000,000	25.00	ISMES SpA	25.00
CONSORZIO TEMA (in liquidation)	Brindisi	Coordination of scientific research	Lit	45,500,000	43.96	ISMES SpA	43.96
CONSORZIO MITELWA (in liquidation)	Ventermate con Minoprio (CO)	Environmental reclamation	Lit	50,000,000	30.00	ISMES SpA	30.00
PARCO EOLICO FOIANO Srl	Foiano Val F. (BN)	Construction and operation of a wind farm	Lit	1,300,000,000	50.00	ISMES SpA	50.00
SIET SpA	Piacenza	Studies and experimental research into thermal technology and thermohydraulics	Lit	2,184,480,000	41.56	ISMES SpA	41.56
IDROENERGIA CONSORZIO	Rome	Construction and operation of desalination plant	Lit	100,000,000	50.00	ISMES SpA	50.00
CONSORZIO GESTIONE CENTRO ISIDE	Prignano Cil. (SA)		Lit	200,000,000	49.00	ISMES SpA	49.00

Report of the Board of Statutory Auditors on the 1998 Consolidated Financial Statements of the Enel Group

Shareholder,

The 1998 Consolidated Financial Statements, prepared by the Parent Company, Enel SpA, in accordance with the requirements of Decree 127 of April 9, 1991, were submitted to us on April 23, 1999. The Consolidated Financial Statements consist of the Balance Sheet, Income Statement and the Notes to the accounts, accompanied by the Report on Group Operations, prepared by the Parent Company's Board of Directors. The Report gives appropriately detailed information concerning the Group's operations, with particular reference to its financial position and results of operations. Moreover, in accordance with art. 40 of the above decree, the Report provides information regarding the Group's research and development activities, significant events subsequent to the end of 1998 and the outlook for 1999. The Board of Statutory Auditors has examined the above documents, and confirms the correct application of accounting procedures and civil legislation. The Consolidated Financial Statements of the Enel Group may be summarized as follows:

Balance Sheet

In billions of Lire	
Assets	
- Fixed assets	79,108.1
- Current assets	13,864.7
- Accrued receivables and prepaid expenses	293.0
	93,265.8
Liabilities and shareholder's equity	
- Total shareholder's equity	35,879.9
- Minority interest	13.2
- Provisions for risks and charges	10,325.8
- Provision for employee severance indemnities	4,438.8
- Accounts payable	41,732.7
- Accrued payables and deferred income	875.4
	93,265.8
Memorandum accounts	
- Guarantees given	1.6
- Other memorandum accounts	174,989.3
	174,990.9

Income Statement

In billions of Lire	
Revenues	41,711.9
Operating costs	(32,107.7)
Financial income and expense, net	(1,479.6)
Adjustments to investments	(1.4)
Extraordinary income and expense, net	(321.0)
Income tax expense	(3,519.5)
Minority interest	3.4
NET INCOME	4,286.1

The Balance Sheet and Income Statement are compared with those of the 1997 Consolidated Financial Statements.
The Board of Statutory Auditors declares that the consolidated companies, of which a list is provided containing the information required by art. 39 of Decree 127/91, have been correctly identified, in accordance with art. 26 of the above-mentioned decree.
The subsidiaries, CISE Tecnologie Innovative Srl, Enel Produzione SpA and So.l.e. SpA were not included in the scope of consolidation, as they are recently established companies, which were not operative during 1998. As in the prior year's financial statements, the subsidiary, WIND Telecomunicazioni SpA, has been excluded in view of the limited scale of the company's operations during 1998, the restrictions on Enel's exercise of control imposed by the subsidiary's bylaws and the purpose of the investment. In contrast to prior years, CISE SpA was not consolidated in view of its merger with Enel in June 1998.
Enel Group's Consolidated Financial Statements reflect the financial statements of consolidated companies, as of December 31, 1998 and as approved by the respective Boards of Directors. The Notes provide information required by art. 38 of Decree 127/91. They describe the accounting policies adopted, which correspond to those applied by the Parent Company and which were unchanged with regard to those adopted for the 1997 consolidated financial statements, with the exception of the policies applying to deferred taxes. Such policies have been adjusted to be consistent with the accounting principle regarding income tax recently adopted by the Italian Accounting Profession. This has led to the recognition, as of December 31, 1998, of deferred tax assets of approximately Lit. 829 billion, reflected in increases in shareholder's equity and 1998 net income of equal amounts. Items are described analytically and the more significant changes with respect to 1997 are explained. The Notes also describe the consolidation principles adopted, in accordance with articles 31 and 32 of Decree 127/91. The principles adopted for the consolidated financial statements are the same as those used in the prior year's accounts.
In particular, we declare that:

a) equity investments in companies included in the scope of consolidation have been eliminated against the related interest in their shareholders' equity, in accordance with the line-by-line basis (section 2a, art. 31);
b) the minority interest in the net income and shareholders' equity of consolidated companies are shown in specific items in the Income Statement and Balance Sheet (sections 3 and 4, art. 31);
c) inter-company costs, revenues, receivables and payables, together with unrealized gains or losses on such transactions, have been eliminated (section 2b, 2c and 2d, art. 31);
d) adjustments to the financial statements carried out to eliminate items of a purely fiscal nature, as well as consolidation adjustments, take account of the relevant deferred tax effect.

Having carried out the checks required by art. 41 of Decree 127, dated April 9, 1991, and on the basis of the information received from the independent auditors, Arthur Andersen SpA, whose appointment to audit the financial statements for the three-year period 1998-2000 has been confirmed by the meeting of the shareholder of Enel SpA, the Board of Statutory Auditors does not have any observations to make regarding the 1998 Consolidated Financial Statements of the Enel Group.

Rome, May 7, 1999

The Board of Statutory Auditors

ARTHUR ANDERSEN

Arthur Andersen S.p.A.

Via Campania 47
00187 Roma

REPORT OF THE INDEPENDENT AUDITORS ON THE

CONSOLIDATED FINANCIAL STATEMENTS

(Translation from the original issued in Italian)

To the Shareholder of
ENEL Società per azioni

1. We have audited the consolidated financial statements of ENEL Società per azioni and subsidiaries (ENEL Group) as of and for the year ended December 31, 1998. We have also checked the consistency of the Board of Directors' report on operations with the consolidated financial statements.

2. Our examination was made in accordance with the auditing standards 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. For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as requested by law, reference should be made to our auditors' report dated June 25, 1998.

3. In our opinion, the consolidated financial statements, taken as a whole, have been prepared clearly and give a true and fair view of the financial position and results of operations of the Company and its subsidiaries, in accordance with the law related to consolidated financial statements. Therefore, we certify the consolidated financial statements of the ENEL Group as of and for the year ended December 31, 1998.

4. For a better understanding of the consolidated financial statements attention is drawn to the following information contained in the notes to the financial statements:

a. as of December 31, 1998, the Parent Company was involved in outstanding litigation and other uncertain situations regarding, mainly, the reimbursement of nuclear-related charges, tariffs, the environment, actions brought by consumers or consumers' associations, the outcomes of which could result in charges or income for the Parent, in some cases not objectively quantifiable. The mentioned situations are extensively described by the Board of Directors' in the notes to the consolidated financial statements.

b. In fiscal year 1998, the accounting method for the recognition of deferred income taxes has been aligned to the new accounting principle on income taxes recently issued by the Italian Accounting Profession. Consequently, the deferred tax assets, for which exist reasonable certainty of future realization, have been recognized in the consolidated financial statements. The related effects are disclosed in the notes to the financial statements.

ARTHUR ANDERSEN S.p.A.

Francesco Gargano - Partner

Rome, Italy
April 26, 1999