

## Report on the 1st quarter of 2000



Enel

Società per azioni

Registered office in Rome

137, Viale Regina Margherita

Share capital

Lire 12,126,150,379,000

fully paid-in

Rome Company Register no. 7050/92

Chamber of Commerce no. 756032

Tax Code 00811720580

VAT Number 00934061003

## Contents

Financial highlights	5
The Enel Group	6
Summary report on the 1st quarter of 2000	7
Form and content of the consolidated accounts	10
Consolidated income statement	11
Consolidated balance sheet	12
Financial review	13
Financial data by segment	16
Operating review	17



## Financial highlights

1st quarter 2000		1st quarter 2000	1st quarter 1999 <sup>(1)</sup>
(Million euro)	Income statement (Billion lire)		
5,758	Revenues	11,150	9,891
2,304	Gross operating margin	4,461	4,477
1,421	Operating income	2,751	2,805
1,197	Income before extraordinary items and income taxes	2,318	2,397
608	Consolidated net income	1,178	1,189
(Million euro)	Balance sheet (Billion lire)		
36,493	Gross capital employed	70,660	70,629 <sup>(2)</sup>
29,607	Net capital employed	57,327	57,467 <sup>(2)</sup>
11,414	Financial debt	22,100	23,418 <sup>(2)</sup>
18,185	Consolidated net equity	35,212	34,034 <sup>(2)</sup>
582	Capital expenditure	1,127	965
	Other information		
	Electricity sold (TWh)	57.2	56.3
	Net electricity generated (TWh)	47.3	45.5
	Employees at quarter end (no.)	76,806	78,511 <sup>(2)</sup>
	Financial ratios		
	ROI (%) <sup>(3)</sup>	3.9	3.8
	ROS (%) <sup>(4)</sup>	24.7	28.4
	Debt to equity ratio	0.63	0.69 <sup>(2)</sup>
	Operating income to debt (absolute value)	10.2	9.1
(euro)	Share data (Lire)		
0.050	Net income per share	97	98
0.190	Gross operating margin per share	368	369
0.117	Operating income per share	227	231
1.500	Book value per share	2,904	2,807

<sup>(1)</sup> 1st quarter 1999 financial data refers to "pro-forma" consolidated statement of income prepared for management purposes

<sup>(2)</sup> At Dec. 31, 1999

<sup>(3)</sup> Operating income to average gross capital employed

<sup>(4)</sup> Operating income to revenues

# The Enel Group

## Enel SpA

electricity generation  
  
electricity generation  
from renewable, geothermal  
and alternative sources

**Enel Produzione**

**Erga**

**Enelpower**

design and construction of power  
plants and transmission facilities

**Elettroambiente**

electricity generation from waste

electricity generation

**Eurogen**

electricity generation

**Elettrogen**

electricity generation

**Interpower**

**Enel.Hydro**  
(formerly ISMES)

design, construction and management  
of water distribution networks

**Sei**

general services and  
real estate management

**Dalmazia Trieste**

real estate management

**Conphoebus**

photovoltaic plants and  
real estate technologies

electricity transmission

**Terna**

electricity distribution  
and sale

**Enel Distribuzione**

sale of electricity  
to eligible customers

**Enel Trade**

**Enel.it**

information technology and  
data transmission services

public lighting

**So.I.e.**

electrical equipment maintenance

**Enel.si** (formerly Se.m.e.)

**Sfera**

personnel training and development

**CESI**

services and research for the electricity sector

fuel trading and logistics

**Enel.FTL**

**WIND**

telecommunications

natural gas distribution

**Colombo Gas**

**ITnet**

internet provider

## Summary report on the 1st quarter of 2000

In the 1st quarter of 2000, better economic conditions allowed Enel's electricity generation to increase by 4% over the 1st quarter of 1999.

The 1st quarter of 2000 was also marked by the introduction of a new tariff structure for non-eligible customers and by the beginning of the liberalization process of the Italian electricity industry with the opening up of the market for eligible customers.

Major electricity flows in the period have therefore been affected by the new context as a number of customers turned to the free market and new entities started operating. The table below shows changes over 1999.

Millions of kWh

	1st quarter 2000	1st quarter 1999	Change	
<b>Net energy generated:</b>				
- thermal	38,930	37,510	1,420	3.79%
- hydroelectric	7,285	6,937	348	5.02%
- geo-thermal	1,067	1,011	55	5.44%
- other sources	9	10	(1)	-10.00%
<b>Total net generation</b>	<b>47,291</b>	<b>45,468</b>	<b>1,823</b>	<b>4.01%</b>
<b>Energy purchases:</b>				
- from domestic suppliers	10,199	7,864	2,336	29.70%
- from foreign suppliers	6,444	10,367	(3,922)	-37.83%
<b>Total purchases</b>	<b>16,644</b>	<b>18,230</b>	<b>(1,587)</b>	<b>-8.70%</b>
<b>Energy sales:</b>				
Captive market				
- High voltage	7,807	12,123	(4,316)	-35.60%
- Medium voltage	19,241	19,038	203	1.07%
- Low voltage	25,859	25,145	714	2.84%
<b>Total</b>	<b>52,907</b>	<b>56,306</b>	<b>(3,399)</b>	<b>-6.04%</b>
Free market				
- High voltage	3,775	-	3,775	-
- Medium voltage	515	-	515	-
<b>Total</b>	<b>4,290</b>	<b>-</b>	<b>4,290</b>	<b>-</b>
<b>TOTAL ENERGY SALES</b>	<b>57,197</b>	<b>56,306</b>	<b>891</b>	<b>1.58%</b>

In the 1st quarter of 2000, demand for electric energy in Italy grew by 6.5% while Enel electricity sales on the captive market decreased by 6% due to the opening up of the market. Enel Trade sales on free market amounted to 4,290 million kWh contributing to the 1.6% growth in total Enel electricity sales over the 1st quarter of 1999. In the last quarter of 1999, the first period of operation of Enel Trade, 982 million kWh were sold on the free market.

Electricity purchases decreased by 8.7% (down 1,587 million kWh) due to a 37.8% decline in imports (down 3,922 million kWh), offset in part by the 29.7% increase in purchases from Italian producers (up 2,336 million kWh). The decrease in imports was due to the assignment by Gestore della Rete (the "System Operator") of a share of the total international transport capacity to other operators, as provided for by a resolution of the Authority for Electricity and Gas. With regards to imports, Enel is allowed both to maintain existing long-term electricity supply contracts with foreign producers, destined to the captive market, and to negotiate other annual supply and spot contracts by Enel Trade at the same conditions as other Italian operators for electricity to be sold on the free market. Increased purchases from Italian producers were due to the coming into operation of new generating plants, producing electricity from renewable and similar sources as provided by CIP Regulation no. 6/92.

The increase in total demand and lower recourse to purchases from third parties resulted in increased net generation (up 1,823 million kWh, or 4%), mainly in thermal power (up 1,420 million kWh or 3.8%).

In the 1st quarter of 2000 gross operating margin amounted to lire 4,461 billion (euro 2,304 million), representing about 40% of revenues.

Operating income totaled lire 2,751 billion (euro 1,421 million) offset by net financial charges and write-downs of equity investments' value amounting to lire 433 billion, net extraordinary charges equal to lire 7 billion and expected income taxes payable amounting to lire 1,132 billion.

Consolidated net income amounted to lire 1,178 billion (euro 608 million) in line with net income for the 1st quarter of 1999, calculated for comparison purposes, amounting to lire 1,189 billion.

Total debt decreased by lire 1,318 billion (from lire 23,418 billion at December 31, 1999 to lire 22,100 billion at March 31, 2000). The debt to equity ratio declined to 0.63 as compared to 0.69 at December 31, 1999. Total shareholders' equity amounted to lire 35,212 billion, increasing by lire 1,178 billion over December 31, 1999.

At March 31, 2000, Enel's employees were 76,806, decreasing by 2.2% over December 31, 1999. The following table shows the breakdown of employees by business area:

Employees			
	at March 31, 2000	at Dec. 31, 1999	Change
Generation	18,672	18,710	(38)
Transmission	3,167	3,250	(83)
Distribution	46,995	47,932	(937)
Other	7,972	8,619	(647)
<b>TOTAL</b>	<b>76,806</b>	<b>78,511</b>	<b>(1,705)</b>



Capital expenditure amounted to lire 1,127 billion (euro 582 million). The breakdown of capital expenditure by area is shown below:

In billions of lire			
	1st quarter 2000	1st quarter 1999	Change
Generation	262	317	(55)
Transmission	110	62	48
Distribution	628	531	97
Other	127	55	72
<b>TOTAL</b>	<b>1,127</b>	<b>965</b>	<b>162</b>

Capital expenditure on generation plants decreased by 17.4%, due mainly to the completion of most of the work carried out in compliance with environmental regulations. The increase in capital expenditure in transmission plant is due to the continuation of work for the construction of a power line linking Italy to Greece.

The increase in capital expenditure on distribution plants is due both to higher demand for connections from customers and to efficiency improvement work on low and medium-voltage networks.

Other capital expenditure included about lire 35 billion for the SAP project, and about lire 30 billion for the development of real estate.

## Form and content of the consolidated accounts

Enel's consolidated income statement for the period January 1-March 31 2000 and Enel's consolidated balance sheet at March 31, 2000 are presented in the same format used in the Report of the Board of Directors included in the Enel Group 1999 Financial Statements.

A pro-forma consolidated income statement for the 1st quarter of 1999, prepared for management purposes, has been included.

After December 31, 1999, subsidiaries Enelpower, Enelpower UK Ltd, Enel.it and Enel.si (formerly Se.m.e.) were included in consolidation as they began operating in the quarter. Accounting principles and consolidation criteria are in line with those adopted in the preparation of the 1999 consolidated financial statements.

Accounts at March 31, 2000 keep into account the elimination of the Electricity Industry Employee Pension Fund as provided in the 2000 State Budget Law. While the issue of decrees for the implementation of the Law are pending, the contribution due by Enel was estimated at lire 4,275 billion, representing 95% of the total amount due according to the said Law. Such amount was recorded under assets among deferred charges and under liabilities among sundry payables. The amount due is amortized over twenty years, as provided by the 2000 Budget Law, and paid out in three installments over three years (2000-2002).

## Consolidated income statement

In millions of euro		In billions of lire	%	In billions of lire	%	In billions of lire	%
1st quarter 2000		1st quarter 2000		1st quarter 1999 (Pro-forma)		Change	
	Sales						
3,400	- Energy sales	6,583	59.1	6,754	68.3	(171)	(2.5)
2,023	- Electricity Equalization Fund contributions	3,918	35.1	2,714	27.4	1,204	44.4
335	- Other	649	5.8	423	4.3	226	53.4
5,758	Total revenues	11,150	100.0	9,891	100.0	1,259	12.7
	Operating costs						
874	- Cost of labor	1,693	15.2	1,829	18.5	(136)	(7.4)
1,331	- Fuel consumption	2,577	23.1	1,438	14.5	1,139	79.2
857	- Energy purchased	1,659	14.9	1,615	16.3	44	2.7
351	- Services, leases and rentals	679	6.1	468	4.7	211	45.1
198	- Materials consumption	384	3.4	340	3.4	44	12.9
67	- Other costs	130	1.2	157	1.6	(27)	(17.2)
(224)	- Capitalized expenses	(433)	(3.9)	(433)	(4.4)	-	-
3,454	Total operating costs	6,689	60.0	5,414	54.7	1,275	23.6
2,304	GROSS OPERATING MARGIN	4,461	40.0	4,477	45.3	(16)	(0.4)
	Depreciation and accruals						
838	- Depreciation	1,622	14.5	1,534	15.5	88	5.7
45	- Accruals and write-downs	88	0.8	138	1.4	(50)	(36.2)
883	Total depreciation and accruals	1,710	15.3	1,672	16.9	38	2.3
1,421	OPERATING INCOME	2,751	24.7	2,805	28.4	(54)	(1.9)
(140)	- Net financial income (expense)	(271)	(2.4)	(307)	(3.1)	36	(11.7)
(84)	- Investments	(162)	(1.5)	(101)	(1.0)	(61)	60.4
1,197	INCOME BEFORE EXTRAORDINARY INCOME AND TAXES	2,318	20.8	2,397	24.3	(79)	(3.3)
(4)	- Net extraordinary income (expense)	(7)	(0.1)	(65)	(0.7)	58	(89.2)
1,193	INCOME BEFORE TAXES	2,311	20.7	2,332	23.6	(21)	(0.9)
585	- Income taxes	1,132	10.2	1,143	11.6	(11)	(1.0)
	- Minority interests	(1)	-	-	-	(1)	-
608	NET INCOME	1,178	10.5	1,189	12.0	(11)	(0.9)

## Consolidated balance sheet

In millions of euro		In billions of lire		
at March 31, 2000		at March 31, 2000	at Dec. 31, 1999	Change
	Fixed assets, net			
39,867	- Tangible and intangible assets	77,193	73,534	3,659
1,007	- Financial assets	1,949	1,442	507
40,874	Total	79,142	74,976	4,166
	Net working capital			
3,096	- Customers	5,995	5,687	308
1,127	- Inventories	2,182	1,944	238
1,028	- Other assets and Equalization Fund, net	1,990	1,773	217
(2,975)	- Trade payables	(5,761)	(6,258)	497
(1,241)	- Net taxes payable	(2,402)	(1,745)	(657)
(5,416)	- Other liabilities	(10,486)	(5,748)	(4,738)
(4,381)	Total	(8,482)	(4,347)	(4,135)
36,493	Gross capital employed	70,660	70,629	31
	Provisions			
(1,559)	- Employee termination indemnity	(3,018)	(2,996)	(22)
(1,050)	- Retirement benefits	(2,034)	(2,041)	7
(2,722)	- Net deferred taxes	(5,270)	(4,974)	(296)
(1,555)	- Other provisions	(3,011)	(3,151)	140
(6,886)	Total	(13,333)	(13,162)	(171)
29,607	Net capital employed	57,327	57,467	(140)
18,185	Total Shareholders' Equity	35,212	34,034	1,178
8	Minority interests	15	15	-
11,414	Financial debt	22,100	23,418	(1,318)
29,607	TOTAL	57,327	57,467	(140)

# Financial review

## Income statement

**Revenues from the sale of electricity** declined by lire 171 billion over the 1st quarter of 1999.

This change was due to the joint effect of the following factors:

- a decrease in revenues amounting to lire 348 billion due to the new tariff structure;
- a lire 177 billion increase in revenues due primarily to a 1.6% increase in the amount of electricity sold and to a shift in sales from high voltage towards low and medium voltage electricity, generating higher margins.

The negative impact of the new tariff structure on Enel's revenues was offset in part by increased amounts of electricity sold following economic recovery. Medium and low voltage sales increased by 3.8% and 2.8%, respectively, over the 1st quarter of 1999.

**Contributions from the Electricity Equalization Fund** increased by lire 1,204 billion primarily due to higher prices of fuels on which grants are calculated. The increase in total contributions was offset by higher fuels costs (lire 1,139 billion) and by electricity purchases from third parties (lire 44 billion).

**Other revenues** increased by lire 226 billion (up 53.4%). The highest increases were registered in connection fees from customers (up lire 42 billion), electricity transport (up lire 53 billion) and lease payments from WIND (up lire 25 billion) for the use of the optic fiber network. The balance of lire 106 billion derived in part from a number of activities currently under development.

**Labor** cost decreased by lire 136 billion (down 7.4%) due mainly to a decrease in the average number of employees from 80,727 in the 1st quarter of 1999 to 76,433 in the 1st quarter of 2000 (down 4,294, or 5.3%), mainly due to the early retirement incentive program implemented in 1999.

**Fuel consumption** increased by lire 1,139 billion due to higher fuel prices. The increase is offset by higher grants from the Equalization Fund covering nearly all fuel costs for the quarter.

**Energy purchased** increased by lire 44 billion, despite lower amounts purchased (down 1,587 million kWh), due to the higher cost of electricity purchased domestically (quantity increasing by 29.7% over the 1st quarter of 1999), and to lower purchases from outside Italy.

**Other operating costs**, net of capitalized expenses, increased from lire 728 billion in the 1st quarter of 1999 to lire 921 billion, growing by lire 193 billion.

The most relevant increases relate to costs for telecommunication services provided by WIND (up lire 120 billion), increased transmission costs (up lire 107 billion) due to the restructuring of the electricity market, offset in part by a lire 34 billion decrease in costs for services and external resources related to increased efficiency. The cost of telecommunications services provided by WIND is offset by the decrease of other costs recorded in the income statement, due to the fact that in the 1st quarter of 1999 such activities were performed by internal resources.

**Gross operating margin** amounted to lire 4,461 billion, in line with the 1st quarter of 1999 (lire 4,477 billion). The ratio of gross operating margin to revenues declined from 45.3% to 40% due to the higher weight of revenues from the Electricity Equalization Fund and of fuel costs.

**Depreciation and accruals** increased by lire 38 billion. Amortization and depreciation increased by lire 88 billion due mainly to the recording of the amortization charges, amounting to lire 56 billion on the estimated amount to be paid to INPS (the Italian national pension fund) following the elimination of the Electricity Industry Employee Pension Fund. Accruals and writedowns decreased by lire 50 billion over the 1st quarter of 1999, due to the transfer of nuclear energy activities to Sogin, excluded from consolidation in view of its transfer to the Italian Treasury, and to lower accruals to the risk reserve.

**Operating income** decreased from lire 2,805 billion in the 1st quarter of 1999 to lire 2,751 billion (a decrease of lire 54 billion or 1.9%) due to the above described events.

**Net financial expense** amounted to lire 271 billion, decreasing by lire 36 billion, down 11.7%.

**Equity investments** relate to the recording of the share in the loss of WIND Telecomunicazioni for the 1st quarter of 2000 amounting to lire 162 billion (lire 101 billion in the 1st quarter of 1999). The amount recorded does not include the deferred tax effect of such loss, prudentially not recorded.

**Net extraordinary expense** amounted to lire 7 billion (lire 65 billion in the 1st quarter of 1999).

**Income taxes** were calculated at the average expected rate of 49%, in line with the 1st quarter of 1999 and whole 1999.

## Balance sheet

Tangible and intangible assets increased by lire 3,659 billion due mainly to:

- an increase of lire 4,219 billion due to the recording of the expected amount payable to INPS resulting from the elimination of the Electricity Industry Employee Pension Fund, net of amortization accrued for the period;
- a depreciation expense for the period higher than capital expenditure by lire 495 billion.

**Financial assets** increased by lire 507 billion due mainly to the payment of lire 663 billion to WIND Telecomunicazioni towards its capital increase and for the purchase of the entire share capital of Colombo Gas, net of the share in WIND's loss for the year and of amounts received from the Electricity Equalization Fund.

**Net working capital** at March 31, 2000 covered lire 8,482 billion of fixed assets, as compared to lire 4,347 billion at December 31, 1999. The change was due mainly to the recording of the expected amount payable to INPS amounting to lire 4,275 billion resulting from the elimination of the Electricity Industry Employee Pension Fund, payable in three years.

**Gross capital employed** at March 31, 2000 amounted to lire 70,660 billion, in line with December 31, 1999 (lire 70,629 billion).

**Net capital employed**, amounting to lire 57,327 billion, is stable as compared with the previous year (lire 57,467 billion).

**Net shareholders' equity** increased by lire 1,178 billion equal to the net income recorded for the quarter.

**Total financial debt** breaks down as follows:

In billions of lire			
	at March 31, 2000	at Dec. 31, 1999	Change
Medium and long-term debt:			
- Loans	6,737	6,890	(153)
- Bonds	14,575	14,598	(23)
	21,312	21,488	(176)
Own bonds and other items	(924)	(789)	(135)
<b>Total</b>	<b>20,388</b>	<b>20,699</b>	<b>(311)</b>
Short-term debt:			
- Bank debt	1,550	3,003	(1,453)
- Loans from unconsolidated subsidiaries	712	743	(31)
<b>Total</b>	<b>2,262</b>	<b>3,746</b>	<b>(1,484)</b>
Marketable securities, cash and banks	(550)	(1,027)	477
<b>TOTAL</b>	<b>22,100</b>	<b>23,418</b>	<b>(1,318)</b>

The decrease in total financial debt of lire 1,318 billion is due to the change in net short-term debt amounting to lire 1,007 billion, and the change in medium and long-term debt amounting to lire 311 billion.

The debt to equity ratio declines to 0.63 from 0.69 at the end of 1999.

## Financial data by segment

### Income data by segment

In billions of lire	Generation	Energy purchased	Distribution and sale	Transmission	Other	Adjustments	Consolidated total
Total revenues	6,238	2,110	7,071	336	3,608	(8,213)	11,150
Operating costs	3,324	1,592	6,380	129	3,386	(8,122)	6,689
Gross operating margin	2,914	518	691	207	222	(91)	4,461
Depreciation and accruals	724	-	806	112	108	(40)	1,710
<b>OPERATING INCOME (LOSS)</b>	<b>2,190</b>	<b>518</b>	<b>(115)</b>	<b>95</b>	<b>114</b>	<b>(51)</b>	<b>2,751</b>

### Balance sheet data by segment

In billions of lire	Generation	Distribution and sale	Transmission	Other	Adjustments	Consolidated total
Net fixed assets	38,925	24,559	7,610	61,489	(53,441)	79,142
Net working capital	(9,886)	(6,716)	(1,827)	(8,148)	18,095	(8,482)
Gross capital employed	29,039	17,843	5,783	53,341	(35,346)	70,660
Provisions	6,289	3,666	741	2,639	(2)	13,333
<b>NET CAPITAL EMPLOYED</b>	<b>22,750</b>	<b>14,177</b>	<b>5,042</b>	<b>50,702</b>	<b>(35.344)</b>	<b>57.327</b>



# Operating review

## Generation

Electricity generation is carried out by:

- Enel Produzione and Erga (in the field of renewable sources), that are expected to remain within the Enel Group;
- Eurogen, Elettrogen and Interpower, to be sold by December 31, 2002.

These companies recorded a total operating income amounting to lire 2,190 billion, resulting from the difference between lire 6,238 billion in total revenues and costs amounting to lire 4,048 billion.

Revenues recorded in the 1st quarter of 2000 (lire 6,238 billion) were made up mainly by electricity sales totaling lire 3,453 billion (8.2% of which on the free market) and by grants from the Electricity Equalization Fund amounting to about lire 2,720 billion.

Costs (lire 4,048 billion) were made up by lire 3,324 billion of operating costs (of which lire 2,577 billion of fuels costs) and lire 724 billion of depreciation and accruals.

Plant capacity utilization was satisfactory, while the three new generating companies to be sold registered a significant increase in net electricity generation over the 1st quarter of 1999 (up 24.2%). In 2000 management efforts will concentrate on the achievement of operating efficiency improvements and a better fuel mix, with the aim of compensating the expected decrease in revenues due to seasonal factors affecting prices of electricity.

## Division in charge of the purchase of electricity from Italian and foreign producers to be sold on the captive market

Enel presently holds electricity purchase contracts with Italian and foreign producers for electricity to be sold on the captive market. For the sale of energy purchased from foreign and domestic producers the division receives from Enel Distribuzione the sale price recognized in the tariff in addition to grants from the Electricity Equalization Fund pursuant to current regulations. The division's costs are those set in long-term purchase contracts. Domestic producers are remunerated according to existing contracts. This mechanism will change when the title to the contracts with domestic producers is transferred to the Gestore della Rete di Trasmissione Nazionale, as provided by new legislation.

Operating income amounted to lire 518 billion and resulted from the difference between sales revenues and grants from the Equalization Fund, and the cost of electricity purchases. In the whole 2000 operating income will be absorbed in part by distribution and sale activities due to seasonal factors affecting tariffs in relation to purchase prices.

## Distribution and sale

The distribution and sale area includes Enel Distribuzione and Enel Trade, operating respectively on the captive and the free market.

In the 1st quarter of 2000, Enel Distribuzione recorded an operating loss amounting to approximately lire 180 billion, resulting from the joint effect of the new tariff structure, the opening up of the electricity market and the new criteria in valuing electricity purchases, affected by the seasonality of prices paid to producers. Such negative seasonal effect will be more than offset in the rest of the year.

Enel Trade recorded operating income of about lire 65 billion, due to its strong presence on the free market and to a careful management of the mix of energy acquired.

Total revenues for the distribution and sale area amounted to lire 7,071 billion and were mainly generated by electricity sales (lire 6,124 billion on the captive market and lire 459 billion on the free market). Revenues generated by high voltage electricity sales amounted to lire 719 billion, those generated by medium voltage electricity amounted to 1,752 billion while low voltage electricity sales were equal to lire 4,112 billion.

Operating costs amounted to lire 6,380 billion, of which lire 4,827 billion relating to energy purchases and transmission services used, and lire 985 billion to payroll and related costs.

With the aim of countering the decline in margins resulting from changes in the sector, in 2000 management intends to direct its efforts to the reduction of external purchases' costs (mainly materials and contracts), the reorganization of processes, the strengthening of market presence and a reduction in personnel.

## Transmission

Terna, owner of the domestic transmission network, is in charge of the operation and maintenance of high voltage equipment and of the development of the network according to the guidelines issued by Gestore della Rete di Trasmissione Nazionale.

Attention paid to cost reduction contributed to the achievement of an operating income totaling lire 95 billion, despite the fact that costs incurred in the transport of energy on the free market have not been recognized. This is due to the lack of implementation of resolution no. 13/99 of the Authority due to the lack of specific agreements among network managers. Total revenues (lire 336 billion) were in fact generated mainly by tariff payments from Distribution for energy transported on the captive market. Operating costs amounted to lire 129 billion and were represented by payroll and related costs (lire 74 billion) and services (lire 44 billion).

Management will continue to develop new businesses in non-regulated areas, making use of assets and know-how acquired in the operation, maintenance and construction of high voltage power lines.

## Other areas

The Group's activity is expanding in other areas in which new businesses are developed in captive markets that will soon open up to competition.

Relevant events in this quarter relate mainly to real estate and engineering and contracting activities.

The development of real estate properties owned by the Group was pursued through the establishment of joint ventures with international partners. In March 2000, the Board of Directors of Sei approved the incorporation of a new company for the management and development of a group of real estate assets valued at approximately lire 1,000 billion. American Continental Properties Institutional Investors (ACPII) will acquire a 51% interest in this company, while Sei will own the remaining 49%.

Enelpower, in charge of Enel's former Engineering and Contracting business since January 1, 2000, was very active during the quarter in the development of new initiatives offering services outside the Group. In January 2000, Enelco (a company controlled in equal shares by Enelpower and a number of Greek partners) signed an agreement for the construction of a combined cycle power station with a capacity of 400-600 MW in Greece. In February, Enelpower signed a contract for the construction and operation of two combined cycle power stations with a total capacity of 500 MW in Argentina. It also concluded an agreement for the construction and operation of a hydroelectric power station with a 100 MW capacity in Southern Albania.

Operating income of this segment breaks down as follows:

In billions of lire

Sei SpA	50
Enel.it SpA	34
Enelpower SpA	16
So.I.e. SpA	12
Other	2
<hr/>	
<b>TOTAL</b>	<b>114</b>

The development of a multi-utility strategy resulted in the purchase of Colombo Gas and the signing of an agreement with Internet Capital Group (ICG) for the creation of an “incubator” of internet applications for Business-to-Business e-Commerce.

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