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## 2002 Report on the 1st Quarter





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## HIGHLIGHTS

	2002	1st Quarter 2001
<b>Income data (in millions of euro)</b>		
Revenues	7,347	7,351 <sup>(1)</sup>
Gross operating margin	2,016	2,050 <sup>(1)</sup>
Operating income	760	893 <sup>(1)</sup>
Net income	279	378 <sup>(1)</sup>
<b>Financial data (in millions of euro)</b>		
Gross capital employed	48,724	47,191 <sup>(2)</sup>
Net capital employed	44,601	43,039 <sup>(2)</sup>
Total financial debt	23,225	21,930 <sup>(2)</sup>
Shareholders' Equity including minority interests	21,376	21,109 <sup>(2)</sup>
Cash flow from operations	1,679	1,851
<b>Per share data (euro) <sup>(3)</sup></b>		
Net income per share	0.05	0.06 <sup>(1)</sup>
Gross operating margin per share	0.33	0.34 <sup>(1)</sup>
Operating income per share	0.13	0.15 <sup>(1)</sup>
Net equity per share	3.50	3.46 <sup>(2)</sup>
<b>Operating data</b>		
Electricity sales (TWh)	48.5	52.1
Net electricity generated (TWh)	39.3	39.7 <sup>(1)</sup>
Energy transported for the free market (TWh)	20.4	16.8
Employees at period end (no.)	73,005	72,661 <sup>(2)</sup>
<b>Market indicators</b>		
Average Brent oil price (\$/barrel)	21.1	25.8
High-sulfur content fuel oil average price (\$/t)	111	120
Average \$/euro exchange rate	0.877	0.923
Six-month Euribor rate	3.41%	4.64%

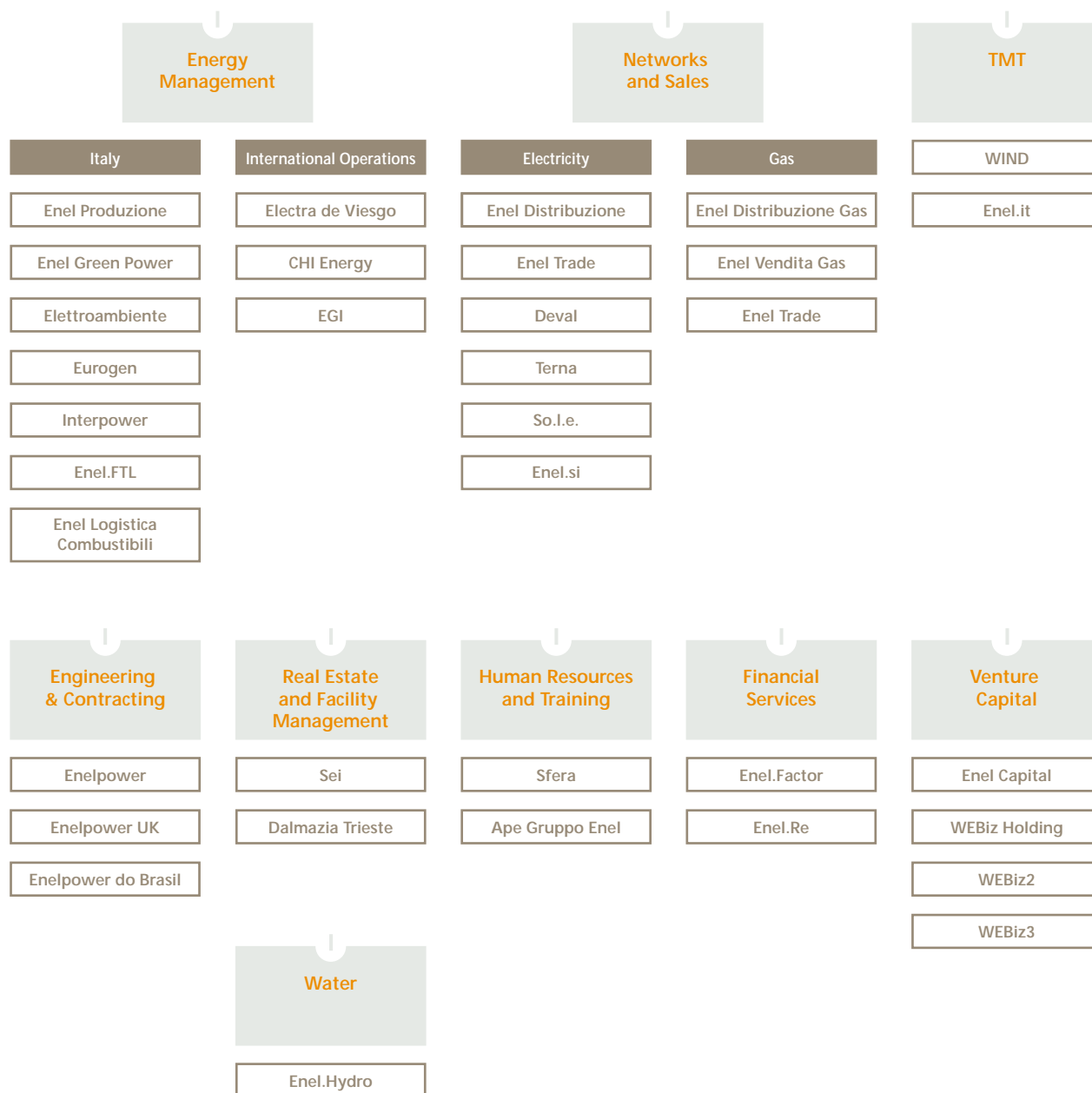
<sup>(1)</sup> Financial data for the 1st Quarter of 2001 relates to the Restated Consolidated Income Statement and does not therefore take into account financial data of Elettrogen and Valgen while including that for Infostrada. The effect of the acquisition of Infostrada and the sale of Elettrogen and Valgen on the amortization of consolidation differences and on financial charges are also reflected.

<sup>(2)</sup> At December 31, 2001.

<sup>(3)</sup> Adjusted to take into account the number of shares resulting from the reverse stock split (6,063,075,189).

## THE ENEL GROUP

### Enel SpA



## SUMMARY OF OPERATIONS FOR THE 1ST QUARTER OF 2002

### Demand for electricity in Italy

In the 1st Quarter of 2002, demand for electricity in Italy was equal to 78,364 million kWh, representing a 1.7% increase over the same period in the previous year.

#### Domestic electricity flows (source: Independent System Operator)

In millions of kWh	1st Quarter		Change	
	2002	2001		
Net electricity generation	67,912	66,751	1,161	1.7%
Net imports	13,163	12,752	411	3.2%
Electricity delivered to the network	81,075	79,503	1,572	2.0%
Pumping consumption	(2,711)	(2,471)	(240)	9.7%
Electricity absorbed by the network	78,364	77,032	1,332	1.7%

Electricity generation increased by 1.7%, in line with the growth in electricity absorbed by the network. Thermal generation grew by 11.1% against a decline of 37.3% in hydroelectric generation. The latter was affected by the low water supply that characterized the first months of 2002, as compared with the same period in the previous year. The growth in imports follows the completion of the upgrade of a number of international power lines, allowing to increase since September 2001 the international transport capacity.

### Results of the Enel Group

#### Generation and sale of electricity in Italy

##### Electricity flows on the Enel network

In millions of kWh	1st Quarter		Change		1st Quarter 2001
	2002	2001 restated			
Net electricity generation					
Thermal	32,964	29,437	3,527	12.0%	32,804
Hydroelectric	5,282	9,124	(3,842)	-42.1%	10,201
Geothermal	1,034	1,074	(40)	-3.7%	1,074
Other sources	11	25	(14)	-56.0%	25
Total net electricity generation	39,291	39,660	(369)	-0.9%	44,104
Sales of generation companies	4,178	1,597	2,581	161.6%	1,597
Electricity purchases					
From domestic producers	5,481	4,565	916	20.1%	121
From foreign producers	5,568	6,299	(731)	-11.6%	6,299
From the ISO	8,941	9,719	(778)	-8.0%	9,719
Total purchases	19,990	20,583	(593)	-2.9%	16,139
Electricity sales					
Regulated market:					
High-voltage	4,177	5,086	(909)	-17.9%	5,086
Medium-voltage	10,761	14,376	(3,615)	-25.1%	14,376
Low-voltage	26,392	26,798	(406)	-1.5%	26,798
Total regulated market	41,330	46,260	(4,930)	-10.7%	46,260
Free market:					
High-voltage	3,505	3,745	(240)	-6.4%	3,745
Medium-voltage	3,663	2,140	1,523	71.2%	2,140
Low-voltage	7	1	6		1
Total free market	7,175	5,886	1,289	21.9%	5,886
Total electricity sales	48,505	52,146	(3,641)	-7.0%	52,146

Financial data for the 1st Quarter of 2001 has been restated for comparative purposes and excludes net electricity generation of Elettrogen and Valgen (sold subsequent to March 31, 2001), reclassified as an increase of purchases from domestic producers. The last column in the table above shows previously reported data relating to the operating perimeter at the time of its publication.

**Sales** on the free and regulated market decline by 7.0%.

Sales on the regulated market register a 10.7% decrease concentrated in the high- and medium-voltage segment and induced by the gradual opening up of the market, in addition to the sale of the Rome and Turin metropolitan distribution networks (occurred in the second half of 2001). On a comparable perimeter basis, the decline is equal to about 7%.

Sales on the free market – in which Enel Trade is the main operator with a 34% market share (gross of own consumption and net of grid losses) – increase by 21.9% over the 1st Quarter of 2001 thanks to the sharp increase in medium-voltage sales (up 71.2%). The decline in high-voltage sales to eligible customers, down 6.4%, is due to the choice offered to final users, pursuant to Authority for Electricity and Gas Resolution no. 317/2001, to acquire directly at auctions held by the Independent System Operator (ISO) electricity falling under the provisions of CIP Regulation no. 6/92, in addition to part of electricity imported.

**Net electricity generated** by the Enel Group in Italy in the Quarter is equal to 39,291 million kWh, declining on a comparable perimeter basis by 0.9% over the same period in 2001. Hydroelectric generation declined in the 1st Quarter of 2002 (down 42.1%, -3,842 million kWh) due to low water supplies, compensated almost in full by the increase in thermal generation (up 12.0%, +3,527 million kWh). Sales made directly by generation companies grow from 1,597 million kWh in the first three months of 2001 to 4,178 million kWh in the same period in 2002, due primarily to higher withdrawals from the network on the part of free market operators.

### Operating performance

**Gross operating margin** for the 1st Quarter of 2002 amounted to euro 2,016 million, declining by 1.7% over the same period in 2001 (down euro 34 million) on the basis of the restated Income Statement that does not include Elettrogen and Valgen, while including financial data for Infostrada, in addition to the impact of changes in the perimeter relating to such companies on financial charges and the amortization of consolidation differences. The TMT sector (Telecommunications and Information Systems) reports an improvement of euro 219 million, from a negative gross margin of euro 62 million in the 1st Quarter of 2001, to a positive gross margin of euro 157 million in the same period in 2002, thanks to the growth recorded by WIND, in line with expectations. The gross operating margin of electricity and gas distribution and sale increases by euro 101 million as a result of cost reductions and the widening of the perimeter in the gas segment, in addition to seasonal factors. The operating margin of the “Energy Management” sector (electricity generation and fuel trading) decreases by euro 291 million. Such change is due in part to the euro 38 million gross operating margin generated by Viesgo, despite the €c 0.31 per kWh bonus recognized only in 2000 and 2001 as a contribution to electricity generation for energy destined to the regulated market, the decrease in hydroelectric generation in addition to the reduction in the positive difference between the tariff component aimed at covering the cost of fuel and the actual fuel cost incurred, as a result of fuel price changes. The remaining activities report an overall decline in margin of euro 63 million due to a reduction in the sale price of electricity imported by the Parent Company resulting from the different performance in the two Quarters of the component linked to oil prices.



*Operating income* declines from euro 893 million in the 1st Quarter of 2001, to euro 760 million in the 1st Quarter of 2002 (down 14.9%), due mainly to higher depreciation charges in the Telecommunications sector (following the expansion of the network) and in the Generation sector, due to investments made abroad after March 31, 2001 (Viesgo and EGI).

*Consolidated net income* (Group and minority interests) for the Quarter amounts to euro 243 million, as compared with euro 290 million in the same period in 2001 (down 16.2%). The sharper decline in the Group's share in net income, decreasing from euro 378 million to euro 279 million (down 26.2%), is due to the lower amount of WIND's losses allocated to minority interests following the improvement in the performance of the subsidiary and the increase in Enel's equity share, subsequent to March 31, 2001.

**Cash flow** generated by operations in the 1st Quarter of 2002 is equal to euro 1,679 million, as compared with euro 1,851 million in the same period in 2001.

**Net capital employed** at March 31, 2002 amounted to euro 44,601 million (euro 43,039 million at December 31, 2001), while total financial debt was equal to euro 23,225 million, increasing by euro 1,295 million over December 31, 2001 due mainly to the expense incurred for the acquisition of the Viesgo Group. Total Shareholders' Equity (Group and minority interests) at March 31, 2002 amounted to euro 21,376 million, up euro 267 million over December 31, 2001. The debt to equity ratio at the end of the Quarter was equal to 1.09, as compared with 1.04 at December 31, 2001.

At March 31, 2002 the Group employed 73,005 **employees**, representing a 0.5% net increase from December 31, 2001.

Employees by segment	at March 31, 2002	at Dec. 31, 2001	Change
Energy Management - Italy	14,362	14,690	(328)
International operations	1,223	320	903
Electricity distribution and sale	41,774	42,168	(394)
Gas distribution and sale	663	675	(12)
TMT	9,728	9,820	(92)
Other activities and Parent Company	5,255	4,988	267
<b>TOTAL</b>	<b>73,005</b>	<b>72,661</b>	<b>344</b>

The increase of 344 employees is due to the following factors:

- increase of 903 employees resulting from the acquisition of the Viesgo Group;
- hiring of 315 new employees;
- termination of employment of 874 employees due mainly to early retirement incentives.

The increase in personnel relating to "Other activities" is due to the growth of Enelpower and its subsidiaries, in addition to the transfer of an R&D unit from Enel Produzione to CESI.

**Capital expenditure** on tangible and intangible assets amounted in the 1st Quarter of 2002 to euro 1,028 million, as shown in the table that follows.

In millions of euro	1st Quarter		Change
	2002	2001	
Energy Management	214	80	134
Networks and sales	419	268	151
TMT	360	652	(292)
Other activities	35	72	(37)
<b>TOTAL</b>	<b>1,028</b>	<b>1,072</b>	<b>(44)</b>

Capital expenditure for the 1st Quarter of 2002 is in line with that for the first three months of 2001, as restated to take into account changes in the area of consolidation. The breakdown by sector shows a marked growth of capital expenditure in electricity related activities (generation and distribution networks) due to the program for the conversion of thermal plants into combined-cycle turbogas plants, the construction of a transmission network in Brazil, in addition to the higher work on the Italian distribution network. Capital expenditure for the 1st Quarter of 2001 in the Telecommunications sector includes euro 362 million representing the balance paid for the acquisition of a UMTS license. Expenditure on telecommunications networks and Information Technology, net of such amount, increases therefore by euro 70 million.

### Outlook

The sale of Eurogen and the acquisition of the Camuzzi Group are expected to be completed by May 2002 while the disposal of Interpower will probably take place in the last part of the year.

The lower contribution in terms of margin caused by disposals will be partly compensated by the stronger contribution of telecommunications, gas and new activities. A further contribution is expected to come from a reduction in operating costs and the expected increase in electricity consumption caused by improved economic conditions.

Divestments will have a positive impact in terms of cash flow and will generate capital gains that will help maintain a high return on equity.

## SIGNIFICANT EVENTS

### Acquisition of the Viesgo Group

On January 8, 2002 Enel completed the acquisition of 100% of Viesgo, a holding company controlling electricity generation and distribution interests, formerly owned by Spanish company Endesa. The value of the transaction amounts to euro 1,870 million, in addition to about euro 130 million of debt assumed by Enel. The Viesgo Group has about 900 employees, a net installed generation capacity of 2,400 MW and about 500,000 customers. Generation plants are distributed throughout the Spanish territory and use primarily (72%) thermal fuels (coal and fuel oil), while the remaining 28% is represented by hydroelectric plants. The distribution network acquired extends over 24,500 kilometers in an area of Northern Spain that registered in recent years an average annual 4% economic growth.

### Acquisition of the Marcotti Group

The acquisition of the Marcotti Group for euro 91 million was finalized on January 31, 2002. The group is made up by six companies (Gead, Geico, Adda Gas, Coregas, Arda Gas and Gasdotti Comunali) active in the natural gas distribution sector in the Piedmont, Lombardy, Liguria, Emilia Romagna and Tuscany regions. The acquired companies hold 149 distribution concessions and serve about 70,000 customers.

### Agreement with the Marcegaglia Group in renewable sources sector

On February 15, 2002 Elettroambiente, Enel's subsidiary active in the waste-to-energy field, signed an agreement for the purchase of a share in the capital stock of Eta Srl – a Marcegaglia Group company – pursuant to which it will underwrite a euro 4.65 million capital stock increase.

The agreement provides for the construction – already underway – of a 16.5 MW biomass generation plant at Cutro (Crotone). This plant will be fully operational by the end of 2002 generating about 105,000 MWh of clean energy a year for the domestic network.

### Alliance with the Camfin Group in the environmental technology sector

On February 28, 2002 the Camfin Group and Enel signed a strategic alliance for the joint development of projects in the environmental technology and renewable sources sector. Pursuant to the agreement, the Enel Group, through its Corporate Venture Capital department, acquires equity in Cam Tecnologie, a Camfin Group subsidiary. The acquisition will take place through a reserved capital increase involving a total investment of euro 6 million, following which Enel Capital will hold a 10% share in Cam Tecnologie's capital stock. The remaining 90% share will continue to be held by the Camfin Group.

This alliance aims at fostering Enel Green Power's international growth and its activity in the renewable sources sector and related technologies projects, also in cooperation with Cam Tecnologie.

### Acquisition of the Camuzzi Group

Through an agreement signed on March 4, 2002 Enel acquired 98.58% of Camuzzi Gazometri's capital stock for euro 1,043 million. Camuzzi Group's

Argentinean activities, Piacenza Football Club, publishing, telecommunications activities and real estate property are excluded from the sale.

The operation is expected to be closed by May, 2002. The approval of competent authorities was granted. Thanks to this operation Enel consolidates its position, becoming the second largest operator in the Italian gas distribution market with over 1.7 million customers and a distribution capacity of more than 3 billion cubic meters. In addition, Enel becomes the second operator in the waste management sector (collection, treatment and disposal of solid urban and industrial waste), handling about 140,000 tons of waste and serving a population of 1.7 million inhabitants in 375 municipalities.

#### Agreement for the construction of a power line linking Northern and Southern Brazil

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On March 7, 2002 Enelpower signed an agreement with Brazilian electric utility ANEEL (Agencia Nacional de Energia Electrica) for the construction and management under a 30-year concession of a km 1,300 high-voltage power line (500 kV) linking Northern and Southern Brazil. The project, worth about euro 400 million, 70% of which financed through project financing provided by a local bank, will be completed in about two years. The project will be managed by a company incorporated for the purpose, Novatrans, in which Enelpower will have a 90% share.

#### Sale of Eurogen and Interpower

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On March 17, 2002 the auction for the sale of Eurogen was concluded. The highest bid was made by the Edipower consortium for a total price of euro 2,980 million. The total value of the acquisition, including debt, is equal to about euro 3,700 million. Procedures for the final sale were started by Enel. The Edipower consortium is made up by Edison (40%), AEM Milano (13.4%), AEM Torino (13.3%), ATEL (13.3%), Unicredito Italiano (10%), Interbanca (5%) and Royal Bank of Scotland (5%). Preliminary activities for the sale of Interpower were started alongside the conclusion of the sale of Eurogen. These included the publication of the offer and the preparation of an Information Memorandum. In view of the smaller size of the company with respect to previous sales, the transaction is expected to be concluded in a shorter period of time, within the term set by the Bersani Decree at December 31, 2002.

#### Sale of investment in Immobiliare Rio Nuovo

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In March 2002, Sei sold to the Deutsche Bank Group its 49% share in Immobiliare Rio Nuovo. The transaction, worth about euro 44 million, was concluded after the approval was granted by competent authorities. Immobiliare Rio Nuovo had been incorporated by Sei (with a 49% share) and Deutsche Bank (51%) with the aim of developing office building property.

#### Litigation regarding the sanctioning of Enel Distribuzione

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With reference to the appeal filed by Enel Distribuzione with the Lombardy Regional Administrative Court (TAR) requesting the repeal of the sanction imposed on the company by the Authority for Electricity and Gas (with Resolution no. 99, dated May 3, 2001), the first degree pronouncement, fully

in favor of the company, was deposited on April 4, 2002. Through its pronouncement, the Lombardy TAR granted Enel Distribuzione's principal request, declaring as paid the sanction (equal to euro 46.5 million) as a result of the payment of a reduced amount (equal to about euro 52,000) made by the company on June 15, 2001, pursuant to article 16, Law no. 689/91.

#### Merger between Infostrada and WIND

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The merger between WIND and Infostrada became effective on January 1, 2002. The integration between the data networks of the two companies, allowing the link between the two data processing centers located at Ivrea and Rome in addition to the operating link between the two systems, continues. A rebranding campaign, providing for the repositioning of the WIND Group's trademarks, was launched in the 1st Quarter of 2002. The WIND trademark identifies mobile and converging telephone services, while the Infostrada name is used to market fixed telephony services. Trademarks Libero and Italia on Line are used to market Internet services, both telephony traditional ones, and those being developed in the mobile telephone field (WAP, GPRS and UMTS).

#### Spin-off of gas sales activities from Enel Distribuzione Gas into Enel Vendita Gas

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In application of current regulations, the spin-off from Enel Distribuzione Gas into Enel Vendita Gas of gas sale on the regulated market was concluded on January 1, 2002.

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## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Income Statement, Balance Sheet and detail of total financial debt included below are reported in the same format adopted in the "Financial review" section of the Report on Operations to the Consolidated Financial Statements for the year 2001. The Income Statement for the 1st Quarter of 2001 has been restated for comparative purposes excluding financial data of Elettrogen and Valgen (sold subsequent to March 31, 2001) while including that relating to Infostrada (acquired on April 1, 2001), and the effect of these sales and acquisition on the amortization of consolidation differences and on financial charges. Changes in the consolidation area in the 1st Quarter of 2002 over the same period in the previous year, on restated basis, are limited to the Viesgo Group (acquired on January 8, 2002), in addition to the sale of the Rome and Turin electricity distribution networks (sold in the second half of 2001). Since such changes do not have a significant effect on the comparability of financial data, no adjustment was made to the Restated Income Statement for the 1st Quarter of 2001.

The accounting principles and consolidation criteria adopted are in line with those previously adopted in the preparation of the Consolidated Financial Statements of the Enel Group at December 31, 2001.

## CONSOLIDATED INCOME STATEMENT

In millions of euro	1st Quarter 2002	1st Quarter 2001 restated		Change	1st Quarter 2001
Revenues:					
Electricity sales and Electricity					
Equalization Fund contributions	5,035	5,784	(749)	-12.9%	5,805
Telecommunication services	863	673	190	28.2%	398
Other services, sales and revenues	1,449	894	555	62.1%	737
<b>Total revenues</b>	<b>7,347</b>	<b>7,351</b>	<b>(4)</b>	<b>-0.1%</b>	<b>6,940</b>
Operating costs:					
Personnel	903	920	(17)	-1.8%	909
Fuel consumption	1,232	1,240	(8)	-0.6%	1,407
Electricity purchased	1,231	1,347	(116)	-8.6%	991
Interconnections and roaming	370	400	(30)	-7.5%	270
Services, leases and rentals	942	940	2	0.2%	879
Fuel for trading and gas for distribution	415	321	94	29.3%	163
Materials	356	215	141	65.6%	216
Other costs	111	111	-		102
Capitalized expenses	(229)	(193)	(36)	18.7%	(188)
<b>Total operating costs</b>	<b>5,331</b>	<b>5,301</b>	<b>30</b>	<b>0.6%</b>	<b>4,749</b>
<b>GROSS OPERATING MARGIN</b>	<b>2,016</b>	<b>2,050</b>	<b>(34)</b>	<b>-1.7%</b>	<b>2,191</b>
Depreciation, amortization and accruals:					
Depreciation and amortization	1,180	1,095	85	7.8%	946
Accruals and write-downs	76	62	14	22.6%	45
<b>Total depreciation, amortization and accruals</b>	<b>1,256</b>	<b>1,157</b>	<b>99</b>	<b>8.6%</b>	<b>991</b>
<b>OPERATING INCOME</b>	<b>760</b>	<b>893</b>	<b>(133)</b>	<b>-14.9%</b>	<b>1,200</b>
Net financial income (expense)	(278)	(278)	-		(226)
Equity investments	11	3	8		-
<b>INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES</b>	<b>493</b>	<b>618</b>	<b>(125)</b>	<b>-20.2%</b>	<b>974</b>
Extraordinary items	(60)	(8)	(52)		(4)
<b>INCOME BEFORE TAXES</b>	<b>433</b>	<b>610</b>	<b>(177)</b>	<b>-29.0%</b>	<b>970</b>
Income taxes	190	320	(130)	-40.6%	465
<b>INCOME BEFORE MINORITY INTERESTS</b>	<b>243</b>	<b>290</b>	<b>(47)</b>	<b>-16.2%</b>	<b>505</b>
Minority interests	36	88	(52)	-59.1%	88
<b>NET INCOME</b>	<b>279</b>	<b>378</b>	<b>(99)</b>	<b>-26.2%</b>	<b>593</b>

## CONSOLIDATED BALANCE SHEET

In millions of euro	at March 31, 2002	at Dec. 31, 2001	Change
Net fixed assets:			
Tangible and intangible	50,975	48,917	2,058
Financial	1,181	1,399	(218)
<b>Total</b>	<b>52,156</b>	<b>50,316</b>	<b>1,840</b>
Net current assets:			
Trade receivables	7,815	6,863	952
Inventories	2,065	1,932	133
Other assets and net receivables from Electricity Equalization Fund	641	870	(229)
Trade payables	(6,484)	(6,176)	(308)
Net taxes payable	(1,396)	(995)	(401)
Other liabilities	(6,073)	(5,619)	(454)
<b>Total</b>	<b>(3,432)</b>	<b>(3,125)</b>	<b>(307)</b>
<b>Gross capital employed</b>	<b>48,724</b>	<b>47,191</b>	<b>1,533</b>
Provisions:			
Employee termination indemnity	(1,431)	(1,418)	(13)
Retirement benefits	(477)	(430)	(47)
Net deferred taxes	(1,108)	(1,219)	111
Other provisions	(1,107)	(1,085)	(22)
<b>Total</b>	<b>(4,123)</b>	<b>(4,152)</b>	<b>29</b>
<b>Net capital employed</b>	<b>44,601</b>	<b>43,039</b>	<b>1,562</b>
Shareholders' Equity:			
Group Shareholders' Equity	21,249	20,966	283
Minority interests	127	143	(16)
<b>Total Shareholders' Equity</b>	<b>21,376</b>	<b>21,109</b>	<b>267</b>
<b>Total financial debt</b>	<b>23,225</b>	<b>21,930</b>	<b>1,295</b>
<b>TOTAL</b>	<b>44,601</b>	<b>43,039</b>	<b>1,562</b>



## FINANCIAL REVIEW

### Income Statement

*Revenues from the sale of electricity and Electricity Equalization Fund contributions* decline by euro 749 million over the 1st Quarter of 2001 (down 12.9%) due to the following factors:

- a euro 1,100 million reduction in revenues from the regulated market (down 21.7%) resulting from lower quantities sold (down 10.7%, -4,930 million kWh) and a reduction in the component aimed at covering thermal fuel costs, decreasing from €c 5.59 in the 1st Quarter of 2001, to €c 4.05 in the first three months of 2002;
- a euro 113 million reduction in Electricity Equalization Fund contributions, of which euro 105 million due to the elimination, effective January 1, 2002, of the €c 0.31 per kWh contribution recognized by the Authority for Electricity and Gas only for years 2000 and 2001 on electricity generated and sold on the regulated market;
- a euro 47 million reduction in revenues from free market sales (down 9.7%) due essentially to the decline in energy prices, offset by higher amounts sold (up 21.9%);
- a euro 220 million increase in revenues from sales of foreign subsidiaries following the acquisition of the Viesgo Group;
- higher sales registered by generation companies operating in Italy (up euro 195 million) due to the increase in quantities sold (up 2,581 million kWh, 161.6%) primarily as a result of higher network withdrawals made by free market operators following the issue of Authority Resolution no. 317/2001.

Revenues from *telecommunications services* increase in the Quarter by euro 190 million (up 28.2%), growing from euro 673 million in the 1st Quarter of 2001, to euro 863 million in the same period in 2002.

*Other services, sales and revenues* increase by euro 555 million (up 62.1%) due to the following:

- Engineering and Contracting revenues increase by euro 158 million (from euro 40 million to euro 198 million);
- revenues from the transport of electricity destined to the free market on Enel Distribuzione's network increase by euro 116 million due in part to the invoicing by Enel Distribuzione of other components that were previously recorded among Enel Trade's electricity sale revenues;
- euro 65 million increase in revenues from the sale of natural gas on the free market reported by Enel Trade;
- euro 58 million increase in revenues from the sale of natural gas on the regulated market;
- increase of euro 46 million in revenues from fuel trading;
- euro 38 million increase in revenues from electricity transported on the national transmission network;
- increase of about euro 15 million in revenues from Information Technology, facility management, franchising and public lighting.

In the 1st Quarter of 2002, adjustments to past year revenues increased by euro 59 million, due prevalently to adjustments made on energy withdrawn in 2001 by free market operators and to the transport of the same. Such adjustments are determined by the ISO.

*Personnel costs* decline over the corresponding Quarter in the previous year by euro 17 million (down 1.8%) due to a 7.4% reduction in the average number of employees. The last phenomenon was partly offset by the economic impact of the renewal of the labor contract for the category, the growth in variable cost components and ordinary wage increases.

*Thermal fuel costs* decline by euro 8 million (down 0.6%) against a 12% increase in net thermal generation. The diverging performance is due to lower energy product unit prices applicable in the 1st Quarter of 2002 as compared with the same period in 2001.

*Electricity purchase costs* decline in the Quarter by euro 116 million (down 8.6%), against a 2.9% reduction in the volume of electricity acquired. Lower unit costs are due primarily to the decline in energy commodity prices to which the price of part of the electricity acquired is linked.

*Interconnections and roaming costs*, unique to the telecommunications sector, decline in the Quarter by euro 30 million (down 7.5%) as a result of benefits deriving from the development of WIND and Infostrada's networks, enabling WIND to terminate in the 3rd Quarter of 2001 the roaming agreement with Telecom Italia Mobile and to reduce traffic diverted to other operators. Roaming costs decrease by euro 89 million (from euro 117 million to euro 28 million), while interconnections costs increase by euro 59 million (from euro 283 million to euro 342 million), due to increased traffic.

The cost of *services, leases and rentals* for the Quarter is equal to euro 942 million, in line with the first three months of 2001 (euro 940 million), as a result of a number of factors:

- a euro 48 million increase in electricity transport costs, determined by the growth in the volume of electricity destined to the free market in addition to seasonal factors not present in 2001;
- a euro 61 million increase in service and contract work costs incurred by the Engineering and Contracting sector due to stronger activity;
- euro 18 million increase in leases and rentals due to the sale of businesses operating in the sector in 2001;
- a euro 8 million increase in costs incurred in the Quarter by international activities due to the wider consolidation area;
- a euro 133 million reduction in the "hydroelectric surcharge" payable on electricity generated by hydroelectric and geothermal plants, due to lower amounts generated.

Costs for the purchase of *fuel for trading and gas for distribution* increase in the Quarter by euro 94 million, growing from euro 321 million to euro 415 million (up 29.3%). Data reflects the growth in the number of customers following the acquisition of gas distribution companies in 2001, the development of fuel trading activities carried out by Enel.FTL and the growth in activity on the free market for gas reported by Enel Trade.

The cost of *materials* increases in the 1st Quarter of 2002 by euro 141 million (up 65.6%), due mainly to increased needs relating to the growth of Engineering and Contracting activities carried out for third parties and higher costs capitalized in the period.

*Other costs* amount to euro 111 million, in line with the same period in the previous year.

*Gross operating margin* for the 1st Quarter of 2002 amounts to euro 2,016 million, decreasing by euro 34 million over the same period in 2001 (down 1.7%). Changes are shown in the table that follows:

In millions of euro	
Improvement in WIND's margin	216
Improvement in electricity distribution and sale, including foreign purchases	17
Higher margin reported by international operations	48
Higher gas sector margin	20
€c 0.31 per kWh cut in tariff recognized to producers in 2000 and 2001	(105)
Decline in hydroelectric generation	(80)
Higher thermal fuel cost contributions in the 1st Quarter of 2001	(150)
<b>TOTAL</b>	<b>(34)</b>

WIND benefited from the strong growth in traffic, increasingly channeled on its own network, resulting in clear benefits for the gross operating margin.

The distribution network and sale of electricity segment benefited from cost cutting and growth in sales on the free market, allowing to counter effectively the decline registered in regulated market sales.

The higher margin recorded by international operations and the gas sector follows the inclusion in the consolidation area of the Viesgo Group and of a number of domestic gas distributors purchased.

The Energy Management sector was negatively affected in the 1st Quarter of 2002 by the strong decline in hydroelectric generation as compared with the same period in 2001 due to the scarce water supply. A further difference from the 1st Quarter of 2001 is represented by the reduction in the differential between the tariff component aimed at covering fuel costs and the actual cost incurred. Due to timing differences contained in the mechanism applied in the determination of the tariff, such difference was particularly wide in the first months of 2001, subsequently declining in the year. Finally, the elimination of the €c 0.31 per kWh tariff component, applicable only in 2000 and 2001, determined a corresponding contraction in the gross operating margin.

*Depreciation, amortization and accruals* increase in the Quarter by euro 99 million (up 8.6%). The increase is due prevalently to the TMT sector (up euro 52 million), following the coming into service of a number of relevant investments in networks, and international activities (up euro 31 million), due primarily to the acquisition of the Viesgo Group.

*Operating income* for the 1st Quarter of 2002 was equal to euro 760 million, declining by euro 133 million over the first three months of 2001 (down 14.9%).

*Net financial expense* amounts to euro 278 million and is in line with the 1st Quarter of 2001. The increase in average debt following the expense for the acquisition of the Viesgo Group (partly offset by the proceeds from the sale of Rome and Turin's metropolitan electricity distribution networks) was compensated only in part by a decline in interest rates from which the Group was able to benefit thanks to the breakdown of its sources of funds.

*Extraordinary losses* amount to euro 60 million, against euro 8 million in the 1st Quarter of 2001. The increase is due to early retirement incentive costs, mainly in the electricity distribution and sale area, resulting in a reduction in personnel costs starting already in the 2nd Quarter of 2002.

*Income taxes* for the 1st Quarter of 2002 amount to euro 190 million, representing 43.9% of income before taxes, as compared with 52.5% in the same period in 2001.

The reduction occurred in the 1st Quarter of 2002 originates mainly from the recording of a prudent estimate of benefits resulting from the application of the Tremonti-bis Law (tax credits on investments) in force since the second half of 2001 and through 2002.

The adjusted tax rate applicable to ordinary income in the 1st Quarter of 2002 (excluding the Telecommunications sector and the benefits deriving from the application of the Tremonti-bis Law) is equal to about 47%, in line with the adjusted tax rate for the 2001 financial year.

## Cash flows

**Cash flows** for the 1st Quarter of 2002 and 2001 are summarized in the table that follows. Financial data for 2001 relates to a consolidation area that includes all activities carried out by the Group. Financial data reported below thus includes operating data for Elettrogen and Valgen, while excluding data relating to Infostrada. Capital expenditure and changes in debt include the acquisition of Infostrada, occurred on March 29, 2001. Financial flows for 2002 are instead based on the new consolidation area.

In millions of euro	1st Quarter		Change
	2002	2001	
Cash generated by operations	1,679	1,851	(172)
Net investments in tangible and intangible assets	(1,020)	(839)	(181)
Net investments in consolidated subsidiaries	(1,793)	(7,497)	5,704
Other changes in fixed assets	(53)	(8)	(45)
Cash generated by investing activities	(2,866)	(8,344)	5,478
Change in financial debt	1,348	6,782	(5,434)
Change in cash balance	161	289	(128)

*Cash generated by operations* in the 1st Quarter of 2002 is equal to euro 1,679 million, against euro 1,851 million in same period of 2001. The difference is due primarily to the higher amount of resources absorbed by current assets in the 1st Quarter of 2002 following growth in diversified activities.

*Investment activities* absorbed in the 1st Quarter of 2002 resources amounting to euro 2,866 million, of which euro 1,777 million as a result of the payment of the balance due upon the acquisition of the Viesgo Group, and euro 1,020 million relating to capital expenditure (net of disposals). Such financial needs were covered by cash generated by operations, amounting to euro 1,679 million, and by an increase in financial debt (net of the increase in cash and total debt of the Viesgo Group) equal to euro 1,187 million.

## Balance Sheet

*Tangible and intangible assets* increase in the Quarter by euro 2,058 million. Tangible assets of the Viesgo Group, acquired in 2002, amount to euro 1,400 million, while the consolidation difference, represented by the difference between the price paid and the share in the Shareholders' Equity acquired at the time of the purchase, amounts to euro 720 million. The amount, amortized over 20 years, may vary according to the different purchase price paid resulting from the assessment and valuation of the company's assets currently underway, in

addition to the possible classification, in part or in full, of such difference as an adjustment to the value of the assets purchased, once the relevant information becomes available.

*Financial assets* decline by euro 218 million. The balance at the end of 2001 included euro 234 million relating to the first installment payment for the acquisition of Viesgo (corresponding to 12.5% of the capital stock). The completion of the acquisition and the resulting line-by-line consolidation of the company determined a reduction by the same amount on the balance at December 31, 2001, in addition to the elimination of the first euro 94 million installment payment paid in November 2001. In the 1st Quarter of 2002 the value of unconsolidated subsidiaries increases by euro 112 million, of which euro 91 million relating to the acquisition of the Marcotti Group (gas distribution).

*Net current assets* at March 31, 2002 amounted to negative euro 3,432 million, as compared with negative euro 3,125 million at December 31, 2001. The euro 307 million change is due to the following factors:

- increase in trade receivables (up euro 952 million), due mainly to the increase in direct sales made by generation companies (up euro 200 million), higher amounts receivable by Terna from the ISO (up euro 164 million), stronger activity in telecommunications, fuel trading, free market gas and electricity sales, Engineering and Contracting (up overall by euro 395 million), in addition to the wider operating perimeter of gas distribution companies (up euro 117 million) and foreign subsidiaries (up euro 60 million);
- increase in inventories (up euro 133 million), due mainly to Engineering and Contracting activities;
- reduction in other activities and in the balance with the Electricity Industry Equalization Fund (down euro 229 million) due mainly to the change in the latter, shifting from a credit to a debit position due to regulatory changes occurred;
- increase in trade payables (up euro 308 million) due mainly to the growth registered in the mentioned sectors;
- increase in net taxes payable (up euro 401 million) following the recording of income taxes for the Quarter and a reduction in VAT receivable;
- increase in other liabilities, up euro 454 million, due mainly to the growth in advances paid by customers in the Engineering and Contracting sector (up euro 208 million), and in accrued financial payables (up euro 153 million) due to interest accrued on existing loans.

*Net capital employed* increases from euro 43,039 million at December 31, 2001, to euro 44,601 million at March 31, 2002.

*Total Shareholders' Equity* increases in the Quarter by euro 267 million due primarily to the net income recorded for the period, reaching euro 21,376 million.

Changes in *total financial debt* for the Quarter are shown in the table that follows:

In millions of euro	at March 31, 2002	at Dec. 31, 2001	Change
Medium- and long-term debt:			
Bank loans	9,350	8,695	655
Bonds	7,957	7,962	(5)
Own bonds and other items	(545)	(556)	11
	16,762	16,101	661
Financing extended by others	538	538	-
<b>Total medium- and long-term debt</b>	<b>17,300</b>	<b>16,639</b>	<b>661</b>
Short-term debt:			
Bank loans:			
18-month loans	700	500	200
Use of revolving credit lines	2,813	2,421	392
Other short-term bank loans	2,843	2,985	(142)
	6,356	5,906	450
Commercial paper	944	604	340
Other short-term financial debt	31	30	1
<b>Total short-term debt</b>	<b>7,331</b>	<b>6,540</b>	<b>791</b>
Factoring receivables	(658)	(644)	(14)
Financial payables to affiliated companies	-	(18)	18
Cash at banks and short-term securities	(748)	(587)	(161)
	(1,406)	(1,249)	(157)
Net short-term financial position	5,895	5,291	604
<b>TOTAL FINANCIAL DEBT</b>	<b>23,225</b>	<b>21,930</b>	<b>1,295</b>

With regards to medium- and long-term debt, in the 1st Quarter of 2002 a euro 300 million loan was extended by EIB to Enel Green Power for the renovation and upgrade of its plant. WIND increased the use of credit available through facility agreements by euro 510 million.

The growth in short-term debt is due to financial requirements for the acquisition of the Viesgo Group. Recourse to short-term debt is dictated by opportunity in view of proceeds from the sale of Eurogen expected to be received in the 2nd Quarter of 2002. At March 31, 2002, financial debt includes also net debt relating to the Viesgo Group, amounting to euro 56 million, resulting from euro 108 million of bank debt and euro 52 million of cash. The debt to equity ratio increases from 1.04 at December 31, 2001, to 1.09 at March 31, 2002.

## FINANCIAL DATA BY SEGMENT

In millions of euro	2002	1st Quarter 2001 restated <sup>(1)</sup>	Change	
Energy Management				
Revenues	3,174	3,320	(146)	-4.4%
Gross operating margin	1,057	1,348	(291)	-21.6%
Operating income before amortization of consolidation differences	722	1,042	(320)	-30.7%
Operating income	711	1,041	(330)	-31.7%
Networks and sales				
Revenues	5,326	6,110	(784)	-12.8%
Gross operating margin	648	547	101	18.5%
Operating income before amortization of consolidation differences	171	77	94	122.1%
Operating income	168	70	98	140.0%
TMT				
Revenues	1,006	829	177	21.4%
Gross operating margin	157	(62)	219	
Operating income before amortization of consolidation differences	(98)	(265)	167	-63.0%
Operating income	(235)	(402)	167	-41.5%
Parent Company and other activities				
Revenues	1,126	1,532	(406)	-26.5%
Gross operating margin	171	224	(53)	-23.7%
Operating income	133	191	(58)	-30.4%
Adjustments				
Revenues	(3,285)	(4,440)	1,155	
Gross operating margin	(17)	(7)	(10)	
Operating income before amortization of consolidation differences	(17)	(7)	(10)	
Operating income	(17)	(7)	(10)	
Total Group				
Revenues	7,347	7,351	(4)	-0.1%
Gross operating margin	2,016	2,050	(34)	-1.7%
Operating income before amortization of consolidation differences	911	1,038	(127)	-12.2%
Operating income	760	893	(133)	-14.9%

<sup>(1)</sup> Data for the 1st Quarter of 2001 relates to the Restated Income Statement and does not include Elettrogen and Valgen while including Infostrada (and the effect of its acquisition) from January 1, 2001.

## ENERGY MANAGEMENT

The sector includes electricity generation activities in Italy and abroad, in addition to fuel trading and procurement (managed by Enel.FTL and its subsidiaries). "International operations", represented by the Viesgo Group (Spain), acquired in January 2002, and American subsidiaries CHI Energy and EGL, are reported separately to provide a better understanding of results.

### Financial data

In millions of euro	2002	1st Quarter 2001	Change	
<b>Italy <sup>(1)</sup></b>				
Revenues	2,935	3,308	(373)	-11.3%
Gross operating margin	1,004	1,343	(339)	-25.2%
Operating income before amortization of consolidation differences	692	1,039	(347)	-33.4%
Operating income	692	1,039	(347)	-33.4%
<b>International operations <sup>(2)</sup></b>				
Revenues	239	12	227	
Gross operating margin	53	5	48	
Operating income before amortization of consolidation differences	30	3	27	
Operating income	19	2	17	
<b>Total</b>				
Revenues	3,174	3,320	(146)	-4.4%
Gross operating margin	1,057	1,348	(291)	-21.6%
Operating income before amortization of consolidation differences	722	1,042	(320)	-30.7%
Operating income	711	1,041	(330)	-31.7%

<sup>(1)</sup> Financial data for the 1st Quarter of 2001 excludes Elettrogen and Valgen.

<sup>(2)</sup> Financial data for the 1st Quarter of 2001 relates exclusively to CHI Energy.

### Italy

In 2001 electricity generation activities in Italy were carried out by the following companies:

- Enel Produzione (thermal and hydroelectric generation) and Enel Green Power (renewable sources), which will remain part of the Enel Group;
- Eurogen and Interpower, to be divested. The final requirements for the sale of Eurogen, sold to the Edipower consortium, are currently being met. The sale of Interpower is in its preliminary phase and is expected to be completed in 2002.

As described, in the 1st Quarter of 2002 the amount of electricity generated declined slightly from the same period in the previous year (down 0.9%), registering a sharp contraction of hydroelectric generation (down 3,842 million kWh, 42.1%), offset by the increase in thermal generation (up 3,527 million kWh, 12.0%).



The table that follows shows the breakdown of fuels used in gross thermal generation in the 1st Quarter of 2002 and 2001 (the latter of which does not include electricity generated by Elettrogen).

Fuels used in thermal generation						
In millions of kWh	1st Quarter 2002		1st Quarter 2001		Change	
Fuel oil	15,184	43.2%	11,542	36.7%	3,642	31.6%
Natural gas	10,348	29.5%	10,915	34.7%	(567)	-5.2%
Coal	8,355	23.8%	7,223	23.0%	1,132	15.7%
Other	1,250	3.5%	1,789	5.6%	(539)	-30.1%
<b>TOTAL</b>	<b>35,137</b>	<b>100.0%</b>	<b>31,469</b>	<b>100.0%</b>	<b>3,668</b>	<b>11.7%</b>

The mix of fuels used in the Quarter shows a reduction in relative terms of natural gas, while the use of fuel oil and coal increases. Higher electricity generation related primarily to conventional fuel oil plants and in part coal fired plants.

*Financial results* of the Energy Management sector in Italy – that includes, in addition to the above mentioned generation companies also Enel.FTL and its subsidiaries – for the 1st Quarter of 2002 show a decline in *revenues*, decreasing from euro 3,308 million in the 1st Quarter in 2001, to euro 2,935 million (down 11.3%) in the current Quarter.

The factors that contributed most to the decrease in revenues relate to the electricity generation sector:

- a reduction of about €c 1.50 per kWh over the 1st Quarter of 2001 in the tariff component aimed at covering the cost of fuel, based on the different performance of energy product prices;
- the elimination in 2002 of the €c 0.31 per kWh contribution recognized to producers in 2000 and 2001 for electricity generated for the regulated market.

The factors that helped to limit the decline in revenues induced by the above mentioned factors can be traced primarily to the growth in activity registered by Enel.FTL. The company, managing all fuel purchases of the Group, is active also in the trading of energy commodities, in addition to supplying shipping and logistic services. Enel.FTL also manages risks deriving from fluctuations in energy product prices to which the Enel Group is exposed. In the 1st Quarter of 2002, these activities generated revenues outside the Group amounting to euro 292 million, up euro 46 million over the same period in 2001.

The *gross operating margin* amounts to euro 1,004 million, declining by euro 339 million (down 25.2%) over euro 1,343 million in the 1st Quarter of 2001 due to the net effect of the following factors:

- a reduction of about euro 150 million in the differential between the tariff component aimed at covering fuel costs and the actual cost incurred. Due to timing differences contained in the mechanism applied in the determination of the tariff, such difference was particularly wide in the first months of 2001, subsequently declining in the year;
- a decline in the “hydroelectric margin”, due to lower generation over the 1st Quarter of 2001. This margin results from the higher value of hydroelectric and geothermal electricity produced by plants that do not fall under the provisions of CIP Regulation 6/92, following the introduction of a single sale price of electricity. Such “premium” is only partly offset by the payment of higher national transmission network access charges. The amount is equal to about euro 80 million;

- cancellation of the mentioned €c 0.31 contribution per kWh, generating a negative impact of euro 105 million;
- a reduction of about euro 30 million in margins due mainly to seasonal factors linked also to new regulations regarding electricity withdrawals on the part of free market operators;
- increase in trading margins and revenues from risk management activities carried out by Enel.FTL, amounting to euro 27 million, of which euro 18 million relating to gas.

*Operating income* decreases from euro 1,039 million to euro 692 million, down euro 347 million (33.4%), following higher depreciation and accruals (up euro 8 million).

### International operations

International operations in the Energy Management sector are represented by the Viesgo Group, operating in Spain in the generation (and to a smaller extent in the distribution) of electricity, and by American subsidiaries CHI Energy and EGI (electricity generation from renewable sources). The Viesgo Group, acquired in January 2002, has a net installed capacity of about 2,400 MW, of which 72% represented by thermal generation and 28% by hydroelectric plants.

In the 1st Quarter of 2001, the Enel Group operated abroad exclusively through CHI Energy.

*Revenues* for the 1st Quarter of 2002 amount to euro 239 million, of which euro 213 million relating to Viesgo.

The Viesgo Group generated a total of 2,132 million kWh (of which 1,967 million kWh of thermal electricity), while American subsidiaries accounted for a production of 341 million kWh.

International operations generated a *gross operating margin* of euro 53 million, of which euro 38 million relating to Viesgo and euro 15 million to CHI Energy and EGI.

The *operating income* is equal to euro 19 million, following depreciation and accruals amounting to euro 34 million, of which euro 11 million calculated on consolidation differences, amortized over 20 years.

## NETWORKS AND SALES

Electricity and gas networks and sales are considered separately.

Electricity distribution and sales activities involve the following companies:

- Enel Distribuzione (distribution networks for the free and regulated market, and sale of electricity on the regulated market);
- Deval (same activities as Enel Distribuzione limited to the Valle d'Aosta Region);
- Terna (ownership of the national transmission network);
- Enel Trade (sale of electricity on the free market);
- So.l.e. (public and art lighting);
- Enel.si (franchising and electrical equipment installation).

The gas sector includes Enel Distribuzione Gas (management of natural gas distribution networks), Enel Vendita Gas (sale of natural gas on the regulated market), in addition to Enel Trade, active in the sale of gas on the free market.

### Financial data

In millions of euro	1st Quarter			
	2002	2001	Change	
<b>Electricity</b>				
Revenues	5,111	6,019	(908)	-15.1%
Gross operating margin	615	534	81	15.2%
Operating income before amortization of consolidation differences	148	67	81	120.9%
Operating income	148	67	81	120.9%
<b>Gas</b>				
Revenues	215	91	124	136.3%
Gross operating margin	33	13	20	153.8%
Operating income before amortization of consolidation differences	23	10	13	130.0%
Operating income	20	3	17	
<b>Total</b>				
Revenues	5,326	6,110	(784)	-12.8%
Gross operating margin	648	547	101	18.5%
Operating income before amortization of consolidation differences	171	77	94	122.1%
Operating income	168	70	98	140.0%

### Electricity

Total *revenues* for the sector amount to euro 5,111 million, declining by euro 908 million over the same period in 2001 (down 15.1%) due to a euro 969 million reduction in revenues reported by companies operating in the free and regulated market, partly compensated by revenues from national transmission network usage fees (euro 49 million) and value added services (euro 12 million).

The euro 969 million reduction results from the following factors:

- lower electricity revenues from regulated market sales, down euro 1,100 million;
- lower electricity revenues from the free market, down euro 47 million;
- euro 116 million increase in revenues from the transport of electricity destined to the free market;
- euro 32 million represented by revenues from trading activities on the international market, started in 2002;
- higher sundry revenues, up euro 30 million.

## Regulated market sales

	€c/kWh				€c/kWh				
	In millions of euro	In millions of kWh	Sale and transport	Generation costs	In millions of euro	In millions of kWh	Sale and transport	Generation costs	In millions of kWh
	1st Quarter 2002				1st Quarter 2001				Change
High-voltage	292	4,177	0.57	6.42	373	5,086	0.28	7.06	(909)
Medium-voltage	877	10,761	1.53	6.63	1,407	14,376	1.94	7.85	(3,615)
Low-voltage	2,818	26,392	4.31	6.36	3,321	26,798	4.41	7.99	(406)
Total, gross	3,987	41,330	3.21	6.44	5,101	46,260	3.18	7.84	(4,930)
Adjustments	(9)				(23)				
TOTAL	3,978				5,078				

Sales on the regulated market decline by 4,930 million kWh over the 1st Quarter of 2001 (down 10.7%) due to the migration of medium- and high-voltage customers to the free market and to the sale of the Rome and Turin metropolitan distribution networks subsequent to March 31, 2001. The reduction is particularly marked in medium-voltage sales (down 25.1%), following a decline in the consumption threshold to qualify for the free market starting in January 1, 2002, and the trend towards the creation of customer consortia. Such phenomenon benefited Enel Trade, as described further on. The loss of the contribution of metropolitan distribution networks sold is estimated at 1,650 million kWh, and the decline on a comparable basis is reduced to about 7%.

Revenues decline by euro 1,100 million (down 21.7%), as a result of the decrease in electricity sold and the reduction of tariff components aimed at covering generation costs, declining from an average of €c 7.84 per kWh, to €c 6.44 per kWh (down 17.9%). The €c 1.4 per kWh reduction results from an average decline of €c 1.54 in the component aimed at covering fuel costs (due to lower energy prices to which it is linked), and of a €c 0.14 increase in the component aimed at covering fixed generation costs. Such factors determined a considerable reduction also in the cost of electricity procured.

The tariff component aimed at remunerating sales and transport activities increases by about 1% (from €c 3.18 per kWh to €c 3.21 per kWh). The increase reflects the shift of sales towards low-voltage, allowing to offset the impact of the opposite sign linked to the evolution of the new tariff system, tariff plans and the breakdown of medium-voltage sales.

## Free market sales

	In millions of euro	In millions of kWh	€/kWh	In millions of euro	In millions of kWh	€/kWh	In millions of kWh	€/kWh
	1st Quarter 2002			1st Quarter 2001			Change	
High-voltage	205	3,505	5.85	276	3,745	7.38	-6.4%	-20.7%
Medium-voltage	231	3,663	6.30	207	2,140	9.67	71.2%	-34.8%
Low-voltage	-	7	6.14	-	1	12.25		-49.9%
<b>TOTAL</b>	<b>436</b>	<b>7,175</b>	<b>6.08</b>	<b>483</b>	<b>5,886</b>	<b>8.21</b>	<b>21.9%</b>	<b>-25.9%</b>

Electricity sales on the free market increase in the 1st Quarter of 2002 by 21.9% thanks to the medium-voltage segment (up 71.2%), while high-voltage registered a small decline (down 6.4%), due to the option available to some customers to purchase directly from the ISO both electricity generated by plants falling under the provisions of CIP Regulation 6/92 and electricity imported.

The increase in medium-voltage sales is linked primarily to the formation of a number of consortia of customers in the free market. Enel Trade continues to be the first operator in the free market, with a market share of 34% (calculated gross of own consumption, net of losses).

In the 1st Quarter of 2002 revenues decline by euro 47 million (down 9.7%), due to the higher decrease in sales prices (down 25.9% on the average) with respect to the growth in sales volume. As in the regulated market, the strongest impact is due to the reduction of the component aimed at covering fuel costs. An additional element determining a reduction in revenues is represented by regulatory changes relating to electricity transport fees, following which a relevant share of such service is now invoiced directly by Enel Distribuzione (and is included among Enel Distribuzione's revenues from the transport of electricity destined to the free market) and not by Enel Trade as part of the price of electricity.

The growth in revenues from the transport of electricity destined to the free market, up on the Quarter by euro 116 million, is due, in addition to the growth in volumes sold (increasing from 16,800 to 20,380 million kWh), also to the above described normative changes.

In the 1st Quarter of 2002, Enel Trade operated on the international electricity market in major European electricity exchanges (Paris and Frankfurt), trading directly with large international operators on the French, German and Swiss market. Revenues amounted to euro 32 million, and are not present in the 1st Quarter of 2001.

The increase in sundry revenues, up euro 30 million, are influenced mainly by energy withdrawal and transport adjustments for energy withdrawn in 2001 by free market operators.

Fees for the use of the national transmission network increase in the 1st Quarter of 2002 by euro 49 million due to changes in the tariff system introduced on January 1, 2002, increasing the remuneration of electricity transport, in addition to seasonal factors emerging in 2002 following the extension of the time band tariff mechanism, differentiating by Quarter. As in the case of generation, the first and last Quarter of the year are favored over the two middle ones.

The *gross operating margin* increases by euro 81 million (up 15.2%), growing from euro 534 million in the 1st Quarter of 2001, to euro 615 million in the same period in 2002.

The increase is due to euro 46 million in higher national transmission network (Terna) revenues, euro 29 million in higher revenues from distribution networks and sales on the regulated market, and from transport fees relating to the free market (Enel Distribuzione and Deval), in addition to euro 6 million in higher free market sales and international trading (Enel Trade).

The increase in Terna's margin is due to the above described factors relating to the growth in revenues from the use of the national transmission network. Seasonal factors partially offset Enel Distribuzione's profits.

The improvement in Enel Distribuzione's margin (considered jointly with Deval), is due primarily to the euro 37 million reduction in operating costs following streamlining carried out, partly offset by other factors. The decline in sales and the mentioned seasonal factors had in fact a negative effect, partly compensated by higher amounts of electricity transported for the free market and the recording of adjustments of previous years' revenues.

Enel Trade improved its performance thanks to the growth in volumes and international trading activities.

*Operating income* increases from euro 67 million to euro 148 million (up 120.9%), in line with the euro 81 million increase recorded by the gross operating margin, after depreciation and accruals amounting to euro 467 million.

## Gas

The strong growth in revenues, increasing from euro 91 million in the 1st Quarter of 2001 to euro 215 million in the same period in 2002 (up euro 124 million, 136.3%) relates both to the regulated market (up euro 59 million) and the free market (up euro 65 million).

Operations in the regulated market grew considerably in the 1st Quarter of 2001 due to the acquisition of independent distributors made in 2001. In the first three months of 2002, the Enel Group served, through Enel Vendita Gas and a number of minor companies, a total of 618,443 customers, distributing about 513 million cubic meters of gas and generating euro 150 million in revenues.

Enel Trade, still in its startup phase in the 1st Quarter of 2001, recorded revenues of euro 65 million, supplying about 329 million cubic meters of gas.

*Gross operating margin* amounted to euro 33 million, increasing by euro 20 million over the 1st Quarter of 2001 (up 153.8%).

The improvement is due to companies operating in the regulated market (up euro 13 million) and to Enel Trade (up euro 7 million).

Gas trading carried out by Enel.FTL (included in the Energy Management sector) generated in the 1st Quarter of 2002 an operating margin of euro 18 million.

*Operating income* improves by euro 17 million, growing from euro 3 million to euro 20 million, due to an additional euro 3 million in depreciation charges as compared with the gross operating margin.

Depreciation charges for the 1st Quarter of 2001 relate primarily to consolidation differences, a large part of which was subsequently recorded as an increase in the value of tangible assets, to which a lower depreciation rate applies. This explains the limited growth of depreciation charges in the two periods despite a strong increase in the operating perimeter.

## TMT

The TMT segment includes Enel Group activities in the sector of Telecommunications and Information Technologies, carried out prevalently by WIND (merged with Infostrada on January 1, 2002), its subsidiaries and Enel.it.

In the 1st Quarter of 2002, the telecommunications sector continued to grow, registering an increase in the already strong customer base in all its segments. In such context, WIND, thanks also to the integration of its activities with Infostrada, represents today the largest domestic telecoms operator in alternative to the Telecom Italia Group, reaching in its range of business areas a total of 25 million customers.

At March 31, 2001, domestic *mobile telephone service* reached a market penetration of about 91% of the population, corresponding to about 52 million SIM cards (against 51 million at the end of 2001). WIND, whose SIM market share amounts to 16%, was the mobile telephone operator with the highest growth in new customers, having achieved 39% of new net additions, against 36% of Omnitel-Vodafone and 19% of Telecom Italia Mobile. WIND's activity in the Quarter was aimed at widening the offer of value added services from the point of view of content and products, through agreements with main operators in the field of information and entertainment.

At March 31, 2002, WIND's radio mobile network ensured coverage to 94% of the Italian population and 75% of the national territory.

In the *fixed-line voice telephony* segment, the growth of operators alternative to Telecom Italia continued. At March 31, 2002, other operators reached a total market share of about 45% (44% at December 31, 2001), equal to about 11 million lines, of which over 7 million (corresponding to about two thirds of the market) managed by WIND. Traffic for the Quarter amounted to 5.9 billion minutes, up 34% on the same period in 2001 (inclusive of Infostrada). In this market, the company continues to focus on the acquisition of Carrier Pre-Selection customers.

In the Internet access sector, at March 31, 2002 market penetration reached 48% of the Italian population, with 28 million customers (26 million at the end of 2001). The market share held by WIND is equal to about 36%, corresponding to about 10 million registered customers. The number of page views registered on WIND Group portals (Italia OnLine and inwind) grew by 36% over the 1st Quarter of 2001 (including Infostrada), reaching an average of 630 million page views per month. In this sector WIND continues to develop ADSL lines (marketed under the "Libero ADSL" trademark), deemed as strategic for the supply of content and higher value added services.

Enel.it, a company operating in the field of Information & Communication Technology, manages and develops information systems for the Enel Group, with the objective of maximizing costs and performance, offering services as a system integrator and providing services for the outsourcing of technological platforms. In the 1st Quarter of 2002, the company continued to develop numerous initiatives, among which the Contact Center project (completed) on behalf of Enel Distribuzione, and the start of the project involving the development of the new invoicing system. The company continued to develop and maintain portals of the different Group companies and to carry out market tests for the introduction of the Power Line Communication project, while long-distance monitoring of digital meters through the Telemanager system started.

Main financial data for the TMT sector, reported separately for the WIND Group and Enel.it, for the 1st Quarter of 2002 is included below. Such data is compared with the corresponding values for the same period in 2001 that include, on a restated basis, also data for the Infostrada Group (reflecting the amortization of consolidation differences resulting from its acquisition).

Financial data				
In millions of euro	1st Quarter		Change	
	2002	2001		
WIND				
Revenues	921	768	153	19.9%
Gross operating margin	117	(99)	216	
Operating income before amortization of consolidation differences	(114)	(281)	167	59.4%
Operating income	(251)	(418)	167	40.0%
Enel.it				
Revenues	109	79	30	38.0%
Gross operating margin	40	37	3	8.1%
Operating income before amortization of consolidation differences	16	16	-	
Operating income	16	16	-	
Netting				
Revenues	(24)	(18)	(6)	
Total				
Revenues	1,006	829	177	21.4%
Gross operating margin	157	(62)	219	
Operating income before amortization of consolidation differences	(98)	(265)	167	63.0%
Operating income	(235)	(402)	167	41.5%

The WIND Group reported a strong growth in *revenues*, increasing from euro 768 million to euro 921 million (up euro 153 million, 19.9%) thanks to the contribution of all activities. Operating costs decline by euro 63 million, due primarily to lower roaming expenses following the development of the own network.

The *gross operating margin* increases from negative euro 99 million to positive euro 117 million, improving by euro 216 million.

At the operating income level the improvement on the 1st Quarter of 2001 is reduced to euro 167 million due to euro 49 million in higher depreciation and accruals resulting from strong capital investment in the development of the network.

Enel.it reported a strong increase in revenues (up 38%), reaching in the Quarter euro 109 million. Due to the growth in operating costs, the resulting gross operating margin increases slightly from euro 37 million to euro 40 million, while operating income is stable at euro 16 million following higher depreciation.



## PARENT COMPANY AND OTHER ACTIVITIES

Financial data				
In millions of euro	1st Quarter			
	2002	2001		Change
Parent Company				
Revenues	601	1,235	(634)	-51.3%
Gross operating margin	109	172	(63)	-36.6%
Operating income	103	165	(62)	-37.6%
Other activities				
Revenues	525	297	228	76.8%
Gross operating margin	62	52	10	19.2%
Operating income	30	26	4	15.4%
Total				
Revenues	1,126	1,532	(406)	-26.5%
Gross operating margin	171	224	(53)	-23.7%
Operating income	133	191	(58)	-30.4%

### Parent Company

The Parent Company, Enel SpA, acts as an industrial holding company, defining strategic objectives for its subsidiaries and coordinating their activity. Enel still holds title to a number of fuel purchase contracts – to be transferred to Enel.FTL by the end of 2002 – together with long-term electricity import contracts. Fuel is transferred to Group generation companies at cost, while electricity is sold to Enel Distribuzione at prices set by the Authority for Electricity and Gas.

The decline in *revenues*, decreasing from euro 1,235 million in the first three months of 2001 to euro 601 million in the 1st Quarter of 2002, reflects the gradual transfer of fuel procurement activities to Enel.FTL.

The euro 63 million decline in the *gross operating margin*, decreasing from euro 172 million in the 1st Quarter of 2001 to euro 109 million in the same period in 2002, can be attributed primarily to a reduction in the sale price of imported electricity, following the decline in the component linked to the price of fuel.

### Other activities

Among other major activities carried out by the Group are *Engineering and Contracting* (Enelpower Group) and *Real Estate* (Sei and Dalmazia Trieste).

Enelpower and its subsidiaries are active as Developers (participating in projects also as investors) and EPC General Contractors (supplying turn-key plants to Group companies and third parties).

In the 1st Quarter of 2002 work for the construction of power plants, transformer stations and transmission equipment continued. A euro 6 million contract for the Khashm Lgirba 2 power plant in Sudan was acquired in the Quarter.

The backlog at March 31, 2002 is equal to euro 2,715 million, of which euro 1,569 million relating to Enel Group companies, and euro 1,146 million to third parties.

*Revenues* for the Quarter amount to euro 357 million, registering a strong increase over euro 107 million reported in the 1st Quarter of 2001. Revenues from customers outside the Group increased to 56% of the total in the first three months of 2002, up from 44% in the corresponding period in 2001.

*Gross operating margin* in the Quarter amounts to euro 13 million, as compared with a breakeven in the first three months of the previous year.

The Real Estate sector includes Sei, owner of the majority of office buildings used by the Group, and Dalmazia Trieste, owning residential buildings to be sold. In addition to managing its real estate property, Sei offers an increasing range of services to customers outside the Group in the field of facility management (location management and services) and materials logistics. Through its "Quick Casa" internet site, in the first three months of 2002 Dalmazia Trieste was able to place on the market a high number of its properties (65 apartments, representing a total value of euro 4 million). *Revenues* for the 1st Quarter of 2002 amount to euro 119 million, declining from euro 149 million in the first three months of 2001 due to the conferral of business segments made in 2001. *Gross operating margin* for the Quarter amounts to euro 45 million, declining by euro 5 million on the 1st Quarter of 2001 due to the mentioned reduction in the operating perimeter.

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