

## ENERGY IN TUNE WITH YOU





# Report on the 1st Quarter of 2004





|    |   |
|----|---|
| 5  | The Enel structure  |
| 6  | Highlights  |
| 8  | Key events for the Quarter and subsequent events          |
| 10 | Regulatory aspects  |
| 11 | Overview and summary of results                           |
| 14 | Form and content of the Consolidated Financial Statements |
| 15 | Consolidated Income Statement                             |
| 16 | Consolidated Balance Sheet                                |
| 17 | Financial review  |
| 24 | Results by Division                                       |
| 25 | Generation and Energy Management                          |
| 28 | Networks, Infrastructure and Sales                        |
| 29 | <i>Electricity</i>  |
| 32 | <i>Gas</i>  |
| 34 | International Operations                                  |
| 36 | Transmission networks                                     |
| 38 | Telecommunications  |
| 41 | Parent Company and Other activities                       |



## The Enel structure

### Corporate

#### Enel SpA

#### Generation and

#### Energy Management Division

- > Enel Produzione
- > Enel Green Power
- > Enel Trade
- > Enel Logistica Combustibili
- > Conphoebus

#### Networks, Infrastructure and Sales Divisions

#### Electricity

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

#### Gas

- > Enel Distribuzione Gas
- > Enel Rete Gas
- > Enel Gas
- > Sicilmetano
- > Sicilmetano Energy

#### International Operations Division

- > Viesgo Generación
- > Enel Unión Fenosa Renovables
- > Maritza
- > Enel North America
- > Enel Latin America
- > Electra de Viesgo Distribución
- > Viesgo Energía

#### Telecommunications Division

- > Wind
- > Enel.Net

#### Services and Other activities Division

- > Enel.it
- > Ape
- > Sfera
- > Enel Facility Management
- > Newreal
- > Enelpower
- > Enel.Hydro
- > Enel.Factor
- > Enel.Re

#### Transmission Networks

- > Terna
- > TSN - Novatrans

## Highlights

|   | 1st Quarter |                       |
|---|-------------|-----------------------|
|   | 2004        | 2003                  |
| <b>Income data (in millions of euro)</b>  |             |                       |
| Revenues  | 8,029       | 8,069                 |
| Gross operating margin  | 2,642       | 2,376                 |
| Operating income  | 1,560       | 1,204                 |
| Net income  | 688         | 864                   |
| <b>Financial data (in millions of euro)</b>                                       |             |                       |
| Net capital employed  | 45,098      | 45,489 <sup>(1)</sup> |
| Net financial debt  | 23,085      | 24,174 <sup>(1)</sup> |
| Shareholders' Equity including minority interests                                 | 22,013      | 21,315 <sup>(1)</sup> |
| Cash generated by current operating activities                                    | 1,772       | 1,578                 |
| Capital expenditure   | 624         | 771                   |
| <b>Per share data (euro)</b>  |             |                       |
| Group net income per share  | 0.11        | 0.14                  |
| Group Shareholders' Equity per share  | 3.60        | 3.48 <sup>(1)</sup>   |
| <b>Operating data</b>   |             |                       |
| Domestic electricity sales on the free and regulated market (TWh) <sup>(2)</sup>  | 40.8        | 38.3                  |
| Electricity transported on the domestic distribution network (TWh) <sup>(2)</sup> | 63.1        | 60.2                  |
| Gas sales (billion cubic meters)  | 2.7         | 2.8                   |
| > of which to end-users (billion cubic meters)                                    | 2.1         | 1.8                   |
| Net domestic electricity generation (TWh)   | 32.0        | 32.7                  |
| Employees at period-end (no.)   | 63,379      | 64,770 <sup>(1)</sup> |
| <b>Market indicators</b>  |             |                       |
| Average tariff covering fuel costs (€/kWh)  | 3.98        | 4.11                  |
| Average Brent oil price (\$/b)  | 32.0        | 31.5                  |
| Low-sulfur content fuel oil average price (\$/t) <sup>(3)</sup>                   | 165.4       | 208.6                 |
| Average price of coal (\$/t FOB) <sup>(4)</sup>                                   | 44.1        | 36.3                  |
| Average \$/€ exchange rate  | 1.250       | 1.073                 |
| Six-month Euribor rate (average for the Quarter)                                  | 2.07%       | 2.60%                 |

(1) At December 31, 2003.

(2) Excluding sales to resellers.

(3) Platt's CIF Med Index.

(4) Coal Week International Index for the mix considered by the Authority for Electricity and Gas.



## Divisions

| In millions of euro                | Revenues     |              |              | Gross operating margin |              |              | Operating income |              |              |
|------------------------------------|--------------|--------------|--------------|------------------------|--------------|--------------|------------------|--------------|--------------|
|                                    | 1st Quarter  |              |              | 1st Quarter            |              |              | 1st Quarter      |              |              |
|                                    | 2004         | 2003         |              | 2004                   | 2003         |              | 2004             | 2003         |              |
| Generation and Energy Management   | 2,967        | 3,460        | -14.2%       | 993                    | 1,171        | -15.2%       | 722              | 893          | -19.1%       |
| Networks, Infrastructure and Sales | 5,466        | 5,257        | 4.0%         | 952                    | 572          | 66.4%        | 746              | 247          | -            |
| International Operations           | 251          | 190          | 32.1%        | 77                     | 57           | 35.1%        | 32               | 18           | 77.8%        |
| Transmission networks              | 281          | 248          | 13.3%        | 210                    | 183          | 14.8%        | 166              | 120          | 38.3%        |
| Telecommunications <sup>(1)</sup>  | 1,075        | 1,044        | 3.0%         | 285                    | 230          | 23.9%        | (177)            | (168)        | -5.4%        |
| Parent Company                     | 240          | 263          | -8.7%        | 58                     | 56           | 3.6%         | 52               | 50           | 4.0%         |
| Services and Other activities      | 481          | 555          | -13.3%       | 72                     | 136          | -47.1%       | 24               | 73           | -            |
| Elisions and adjustments           | (2,732)      | (2,948)      | -            | (5)                    | (29)         | -            | (5)              | (29)         | -            |
| <b>Total</b>                       | <b>8,029</b> | <b>8,069</b> | <b>-0.5%</b> | <b>2,642</b>           | <b>2,376</b> | <b>11.2%</b> | <b>1,560</b>     | <b>1,204</b> | <b>29.6%</b> |

| In millions of euro                | Capital expenditure |            |               | Net capital employed |                  |              | Employees (no.)   |                  |              |
|------------------------------------|---------------------|------------|---------------|----------------------|------------------|--------------|-------------------|------------------|--------------|
|                                    | 1st Quarter         |            |               | 1st Quarter          |                  |              | 1st Quarter       |                  |              |
|                                    | 2004                | 2003       |               | at March 31, 2004    | at Dec. 31, 2003 |              | at March 31, 2004 | at Dec. 31, 2003 |              |
| Generation and Energy Management   | 118                 | 100        | 18.0%         | 11,399               | 11,947           | -4.6%        | 10,241            | 10,318           | -0.7%        |
| Networks, Infrastructure and Sales | 330                 | 393        | -16.0%        | 12,040               | 11,360           | 6.0%         | 35,203            | 36,424           | -3.4%        |
| International Operations           | 27                  | 15         | 80.0%         | 3,158                | 3,132            | 0.8%         | 1,703             | 1,710            | -0.4%        |
| Transmission networks              | 59                  | 93         | -36.6%        | 3,608                | 3,580            | 0.8%         | 2,903             | 2,821            | 2.9%         |
| Telecommunications <sup>(1)</sup>  | 72                  | 144        | -50.0%        | 13,022               | 13,203           | -1.4%        | 8,673             | 8,769            | -1.1%        |
| Parent Company                     | -                   | -          | -             | -                    | -                | -            | 541               | 522              | 3.6%         |
| Services and Other activities      | 18                  | 26         | -30.8%        | 1,911                | 2,220            | -13.9%       | 4,115             | 4,206            | -2.2%        |
| Elisions and adjustments           | -                   | -          | -             | (40)                 | 47               | -            | -                 | -                | -            |
| <b>Total</b>                       | <b>624</b>          | <b>771</b> | <b>-19.1%</b> | <b>45,098</b>        | <b>45,489</b>    | <b>-0.9%</b> | <b>63,379</b>     | <b>64,770</b>    | <b>-2.1%</b> |

(1) The operating income and net capital employed include goodwill on the acquisition of Infostrada and of the interest in Wind formerly held by Deutsche Telekom and France Telecom, in terms of amortization and of carrying value.

## Key events for the Quarter and subsequent events

- > On February 11, 2004, "Risk" – a British magazine among the highly regarded European publications dedicated to currency risk management – awarded Enel with the "Risk Management Award", a prize attributed each year to the company that distinguishes itself in the management of financial risk. Enel was singled out for the excellence of a financial strategy focused on reducing and stabilizing the cost of debt, rather than generating profits from the management of derivatives.
- > On February 24, 2004, Enel and Russian private company ESN-Energo together won a contract for the management of the North Western Thermal Power Plant, located near St. Petersburg (NWTPP). Enel ESN-Energo, a 50/50 partnership between Enel and ESN-Energo, will manage the generation plant for three years, with the possibility of one year extension. The plant, which consists of one 450 MW combined-cycle unit and generates about 3.4 billion kWh per year, supplies electricity to the Russian and Finnish markets.
- > On March 2, 2004, the Board of Directors of the Parent Company confirmed the intention to launch an initial public offer for Terna, authorizing the presentation of the Information Memorandum to Consob and the application for the listing to Stock Market authorities.
- > On the same date, the Board of Directors of the Parent Company authorized also the presentation of a binding offer for the acquisition of a majority stake in two Romanian electricity distribution companies, Banat and Dobrogea, which together serve about 1,400,000 customers, representing 17% of the country's total customer base.
- > As part of Enel's strategy to focus on its core electricity and gas businesses, on March 2, 2004, the Board of Directors of the Parent Company resolved Enel's gradual exit from the water sector. This will be achieved through the disposal of Enel.Hydro by direct negotiation, after the spin-off of engineering activities and of sewage treatment into a new subsidiary. These activities will be individually enhanced and sold.
- > On March 18, 2004, the Board of Directors of the Parent Company deemed as in line with Enel's expectations the improved offer made by the DB Real Estate Management-CDC Ixis consortium for the acquisition of the entire capital stock of Newreal, a subsidiary that had previously received from Enel Real Estate its property portfolio. The consortium holds an exclusive for the signing of the sale contract expiring on May 31, 2004. After it has been underwritten, the contract will be submitted to the Antitrust Authority for approval. The offer relates to a package consisting of 887 properties whose market value amounts to euro 1.4 billion. Prior to the sale, 335 properties that are not part of the transaction will be transferred by Newreal to Dalmazia Trieste at a value of about euro 380 million, for the purpose of further value creation.

- > On March 18, 2004, Enel and IBM announced the creation of a partnership to sell to utilities worldwide Enel's integrated system for the remote metering and management of electricity supplies. Utilities adopting the Enel metering system will be able to reduce considerably metering errors and technical assistance times, offering customers tariffs by time band that incentivate the use of electricity away from peak times.
- > On April 1, the Authority for Electricity and Gas (the Authority) initiated, through the issue of Resolution no. 54, an inquiry on the lack of availability of generation capacity that led to the disruptions of supply occurred on June 26, 2003. The Authority believes that Enel Produzione should have made available to the system about 2,300 MW of generation capacity that was "halted for periods longer than those planned for normal maintenance and upgrade", as these are generation plants that benefit from the retrieval of stranded costs. Enel Produzione initiated procedures to contest the arguments put forth by the Authority. The inquiry is expected to be completed by July 2, 2004.
- > On May 6, 2004, Enel SpA launched a euro 1.5 billion fixed-rate bond issue. The issue is divided into two equal parts expiring respectively in 7 and 20 years. Seven-year bonds have an annual coupon of 4.125%, corresponding to a 25 basis point spread over the 7-year swap rate, while 20-year bonds have an annual coupon of 5.25%, corresponding to a 48 basis point spread over the 20-year swap rate.

## Regulatory aspects

### Sale price of electricity recognized to producers

Through Resolution no. 163 dated December 23, 2003, the Authority extended through January 2004 the functioning of the STOVE (Sistema Transitorio di Offerte di Vendita di Energia elettrica) system, maintaining the different time of use (seasonal and hourly) applicable in 2003, until the start of operation of the Pool Market, deeming that the extra cost borne by non-eligible customers in such month would be gradually retrieved in subsequent months. With regard to the start of operation of the Pool Market, the Authority on the one hand extended further the functioning of the STOVE (maintaining the same time of use as in 2003) until the start of the "merit-order dispatching", and on the other set new time of use applicable from April 1, 2004 with Resolution no. 5 dated January 30, 2004.

Authority Resolution no. 20 dated February 19, 2004, reduced tariffs recognized to electricity producers for the months of March-May 2004. Enel and other operators appealed the said Resolution to the Lombardy Regional Administrative Court that suspended its application. Results for the Quarter are therefore not influenced by the same.

### Auctions held by the Single Buyer

On December 19, 2003, the Ministry of Productive Activities issued also a Decree that assigns to the Single Buyer, effective January 1, 2004, the responsibility and authority over the supply of electricity to non-eligible customers.

The Decree sets, moreover, the guidelines for the functioning of the Single Buyer, with particular reference to the means through which it can acquire electricity, among which over-the-counter bilateral contracts concluded outside the Pool Market.

In accordance with ministerial guidelines and criteria indicated in Authority Resolution no. 21/04, in March 2004 the Single Buyer published the terms for the auction for the bidding on the basis of discounts over a base price for both "Contratti bilaterali fisici in banda" and "Contratti differenziali". The auction for "Contratti bilaterali fisici in banda" involved 4,800 MW of total generation capacity divided into "electricity areas" of the Italian territory.

Enel Produzione won 3,620 MW on a total of 4,800 MW auctioned for "Contratti bilaterali fisici in banda", and 15.3 billion kWh, distributed among areas and different types of contracts offered at the auction for "Contratti differenziali".

### Start of operation of the Pool Market

At the end of March 2004, the Authority issued a number of regulations defining main rules for the start of the merit order dispatching and of the market for electricity for the period from April 1 to December 31, 2004.

## Overview and summary of results

### Domestic electricity generation and demand

#### Domestic electricity flows (Source: ISO)

| In millions of kWh                          | 1st Quarter   |               |              |             |
|---|---------------|---------------|--------------|-------------|
|   | 2004          | 2003          | Change       |             |
| <b>Gross electricity generation:</b>        |               |               |              |             |
| > Thermal                                   | 63,664        | 59,401        | 4,263        | 7.2%        |
| > Hydroelectric                             | 9,952         | 11,453        | (1,501)      | -13.1%      |
| > Geothermal and other resources            | 1,966         | 1,658         | 308          | 18.6%       |
| <b>Total gross electricity generation</b>   | <b>75,582</b> | <b>72,512</b> | <b>3,070</b> | <b>4.2%</b> |
| Auxiliary services consumption              | (3,395)       | (3,315)       | (80)         | 2.4%        |
| <b>Net electricity generation</b>           | <b>72,187</b> | <b>69,197</b> | <b>2,990</b> | <b>4.3%</b> |
| Net electricity imports                     | 12,456        | 13,859        | (1,403)      | -10.1%      |
| <b>Electricity delivered to the network</b> | <b>84,643</b> | <b>83,056</b> | <b>1,587</b> | <b>1.9%</b> |
| Consumption for pumping                     | (2,759)       | (2,656)       | (103)        | 3.9%        |
| <b>Electricity demand</b>                   | <b>81,884</b> | <b>80,400</b> | <b>1,484</b> | <b>1.8%</b> |

- > In the 1st Quarter of 2004, *domestic electricity demand* grew by 1.8% on the same period in 2003 to 81.9 billion kWh;
- > *net electricity generation* grew by 4.3%, accounting for 84.8% of electricity demand (as compared with 82.8% in the same period in 2003). Thermal generation grew by 7.2%, while hydroelectric power generation declined by 13.1% due to the lower water supply;
- > *net electricity imports* decline by 10.1%, contributing to satisfy 15.2% of electricity demand.

### Enel domestic electricity generation and sales

#### Enel generation and sales (domestic)

| In millions of KWh   | 1st Quarter |        |         |        |
|--|-------------|--------|---------|--------|
|  | 2004        | 2003   | Change  |        |
| Net electricity generation   | 32,015      | 32,668 | (653)   | -2.0%  |
| Electricity purchases  | 20,553      | 20,931 | (378)   | -1.8%  |
| Sales to wholesalers <sup>(1)</sup>                                    | 6,210       | 8,849  | (2,639) | -29.8% |
| Sales on the regulated market <sup>(2)</sup>                           | 35,758      | 35,712 | 46      | 0.1%   |
| Sales on the free market <sup>(2)</sup>                                | 5,010       | 2,574  | 2,436   | 94.6%  |
| Electricity transported on Enel Distribuzione's network <sup>(2)</sup> | 63,099      | 60,222 | 2,877   | 4.8%   |

(1) Sales made by generation companies and sales to resellers.

(2) Excluding sales to resellers.

- > *Net electricity generation*, amounting to 32.0 billion kWh, declined by 2.0% on the 1st Quarter of 2003. In such context, thermal generation was stable (up 0.9%), while hydroelectric generation declined by 13.7% due to the poor water supply, particularly in January 2004;
- > *electricity purchases* for the Quarter amounted to 20.6 billion kWh, down 1.8% on the 1st Quarter of 2003. Imports pursuant to long-term contracts declined, while purchases from the Single Buyer are gradually replacing those from domestic suppliers;
- > *wholesale sales* amounted to 6.2 billion kWh, declining by 29.8% due primarily to a reduction in the amount of electricity withdrawn from the network by free market operators in the context of transactions managed by the ISO (Independent System Operator);
- > *sales on the regulated market* (excluding sales to resellers) amounted to 35.8 billion kWh, in line with the 1st Quarter of 2003 (35.7 billion kWh), benefiting also from the refining of techniques for the measurement of volumes of electricity purchased and distributed, but not yet billed at the end of the period;
- > *sales on the free market excluding sales to resellers* amounted to 5.0 billion kWh increasing sharply (up 94.6%) on the 1st Quarter of 2003 due primarily to higher sales to large electricity users;
- > *electricity transported on Enel Distribuzione's network* (net of sales to resellers) amounted to 63.1 billion kWh, up 4.8% on the 1st Quarter of 2003 (60.2 billion kWh). Excluding the impact of the refining of the mentioned measurement techniques, the increase would have been equal to 1.8%.

## Enel results

- > *Revenues* for the 1st Quarter of 2004 amounted to euro 8,029 million, in line with the same period in 2003 (euro 8,069 million). Sales of electricity and gas amounted to euro 5,875 million and increase by euro 241 million (up 4.3%), while revenues from non-core activities decline;
- > the *gross operating margin* amounted to euro 2,642 million, as compared with euro 2,376 million in the 1st Quarter of 2003 (up euro 266 million). New rules on the equalization of margins of electricity distributors determined an increase of euro 304 million, destined to be reabsorbed in the course of the year. Net of such seasonal component and of non-recurring income recorded in the 1st Quarter of 2003 (past years' CIP Regulation no. 6/92 contributions amounting to euro 60 million) the gross operating margin grows by euro 22 million (up 1%). The operating performance allowed in fact to offset the impact of tariff changes and the decline in hydroelectric generation;
- > *operating income* amounts to euro 1,560 million, as compared with euro 1,204 million in the 1st Quarter of 2003 (up euro 356 million). The additional euro 90 million increase over the growth registered by the gross operating margin reflects primarily the euro 145 million decline in depreciation charges on domestic electricity transmission and distribution networks as a result of the extension of their residual useful economic life, partly offset by higher amortization charges in the Telecommunications sector;

- > *net extraordinary items* are negative by euro 19 million, as compared with positive euro 338 million in the 1st Quarter of the previous year due to the euro 359 million capital gain recorded on the disposal of Interpower;
- > *Group net income* for the 1st Quarter of 2004 is equal to euro 688 million, as compared with euro 864 million in the same period in the previous year, representing a euro 176 million decline (down 20.4%) due to the absence of the above-mentioned extraordinary income;
- > *cash generated by current operating activities* amounts to euro 1,772 million, as compared with euro 1,578 million on the 1st Quarter of 2003 (up euro 194 million);
- > *capital expenditure* in the Quarter amounts to euro 624 million, down euro 147 million on the 1st Quarter of the previous year. The decline is concentrated in the Telecommunications sector (down euro 72 million) and in the Networks, Infrastructure and Sales Divisions (down euro 63 million);
- > *net capital employed* at March 31, 2004 amounts to euro 45,098 million, declining by euro 391 million (down 0.9%) on December 31, 2003. The reduction reflects the surplus of depreciation and amortization expense over capital expenditure made in the period;
- > at the end of March 2004, the *headcount* was 63,379, representing a reduction of 1,391 employees on December 31, 2003 (down 2.1%). Changes in the scope of activity (disposal of businesses in the environmental sector and acquisition of Sicilmetano) resulted in a net reduction of 814 employees, while terminations, net of hiring, amount to 577.

## Outlook

Starting from April 1, 2004, the merit order dispatching system will become operational. Under such system the electricity price results from the matching of bids and offers made by producers. In April trading was carried out regularly and no significant impact is expected on Enel's margins in 2004.

In light of results achieved in the 1st Quarter of 2004 and based on management policies aimed at the continuing improvement in operating efficiency and the containment of costs, Enel expects an improvement in annual operating income over 2003.

With regard to Enel's financial structure, a slight decline in net financial debt as compared to the end of 2003 is expected.

## Form and content of the Consolidated Financial Statements

The Income Statement, Balance Sheet and detail of Net Financial Debt included below are reported in the same format adopted in the “Financial review” section of the Report on operations included in the related Annual Report for the year 2003.

Accounting and consolidation principles used in the preparation of the present quarterly report are in line with those adopted in the preparation of the Consolidated Financial Statements at December 31, 2003.

Changes in the scope of consolidation for the 1st Quarter of 2004 as compared to the 1st Quarter of 2003 are limited to:

- > Maritza (generation of electricity in Bulgaria) consolidated from April 1, 2003;
- > Enel Unión Fenosa Renovables (generation of electricity from renewable resources in Spain) acquired at the end of December 2003;
- > Sicilmetano and Sicilmetano Energy (distribution and sale of natural gas to end-users) acquired in January 2004 and consolidated from January 1, 2004;
- > Aimeri Group (environmental services) sold in January 2004 and deconsolidated from January 1, 2004.

Such changes are of limited significance and do not affect the comparability of results between the two periods; it is therefore not been deemed necessary to prepare a restated Income Statement for the 1st Quarter of 2003.

The estimated residual useful life of transmission and distribution networks owned by Enel in Italy was extended in 2003 after an appropriate review. The application in the 1st Quarter of 2004 of lower depreciation rates for such assets with respect to those applied in the 1st Quarter of 2003 resulted in a euro 145 million reduction in the depreciation charge over 2003, of which euro 25 million relating to transmission lines and euro 120 million to distribution networks.



## Consolidated Income Statement

| In millions of euro   | %                |              | %                |              | %            |              |
|---|------------------|--------------|------------------|--------------|--------------|--------------|
|   | 1st Quarter 2004 |              | 1st Quarter 2003 |              | Change       |              |
| Revenues:   |                  |              |                  |              |              |              |
| > Electricity sales and Electricity Equalization Fund contributions | 5,315            | 66.2         | 5,139            | 63.7         | 176          | 3.4          |
| > Telecommunication services  | 999              | 12.4         | 947              | 11.7         | 52           | 5.5          |
| > Gas sold to end-users   | 560              | 7.0          | 495              | 6.1          | 65           | 13.1         |
| > Other services, sales and revenues                                | 1,155            | 14.4         | 1,488            | 18.5         | (333)        | -22.4        |
| <b>Total revenues</b>   | <b>8,029</b>     | <b>100.0</b> | <b>8,069</b>     | <b>100.0</b> | <b>(40)</b>  | <b>-0.5</b>  |
| Operating costs:  |                  |              |                  |              |              |              |
| > Personnel   | 824              | 10.3         | 876              | 10.9         | (52)         | -5.9         |
| > Fuel consumed for thermal generation                              | 863              | 10.7         | 939              | 11.6         | (76)         | -8.1         |
| > Electricity purchased   | 1,438            | 17.9         | 1,448            | 17.9         | (10)         | -0.7         |
| > Interconnections and roaming                                      | 331              | 4.1          | 345              | 4.3          | (14)         | -4.1         |
| > Services, leases and rentals                                      | 972              | 12.1         | 911              | 11.3         | 61           | 6.7          |
| > Fuel for trading and gas for resale to end-users                  | 672              | 8.4          | 853              | 10.6         | (181)        | -21.2        |
| > Materials   | 329              | 4.1          | 337              | 4.2          | (8)          | -2.4         |
| > Other costs   | 181              | 2.3          | 223              | 2.8          | (42)         | -18.8        |
| > Capitalized expenses  | (223)            | (2.8)        | (239)            | (3.0)        | 16           | 6.7          |
| <b>Total operating costs</b>  | <b>5,387</b>     | <b>67.1</b>  | <b>5,693</b>     | <b>70.6</b>  | <b>(306)</b> | <b>-5.4</b>  |
| <b>GROSS OPERATING MARGIN</b>                                       | <b>2,642</b>     | <b>32.9</b>  | <b>2,376</b>     | <b>29.4</b>  | <b>266</b>   | <b>11.2</b>  |
| Depreciation, amortization and accruals:                            |                  |              |                  |              |              |              |
| > Depreciation and amortization                                     | 1,015            | 12.7         | 1,092            | 13.5         | (77)         | -7.1         |
| > Accruals and write-downs  | 67               | 0.8          | 80               | 1.0          | (13)         | -16.3        |
| <b>Total depreciation, amortization and accruals</b>                | <b>1,082</b>     | <b>13.5</b>  | <b>1,172</b>     | <b>14.5</b>  | <b>(90)</b>  | <b>-7.7</b>  |
| <b>OPERATING INCOME</b>   | <b>1,560</b>     | <b>19.4</b>  | <b>1,204</b>     | <b>14.9</b>  | <b>356</b>   | <b>29.6</b>  |
| > Net financial income (expense)                                    | (285)            | (3.5)        | (276)            | (3.4)        | (9)          | 3.3          |
| <b>INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES</b>                  | <b>1,275</b>     | <b>15.9</b>  | <b>928</b>       | <b>11.5</b>  | <b>347</b>   | <b>37.4</b>  |
| > Extraordinary items   | (19)             | (0.3)        | 338              | 4.2          | (357)        | -            |
| <b>INCOME BEFORE TAXES</b>  | <b>1,256</b>     | <b>15.6</b>  | <b>1,266</b>     | <b>15.7</b>  | <b>(10)</b>  | <b>-0.8</b>  |
| > Income taxes  | 566              | 7.0          | 440              | 5.5          | 126          | 28.6         |
| <b>INCOME BEFORE MINORITY INTERESTS</b>                             | <b>690</b>       | <b>8.6</b>   | <b>826</b>       | <b>10.2</b>  | <b>(136)</b> | <b>-16.5</b> |
| > Minority interests  | (2)              | -            | 38               | 0.5          | (40)         | -            |
| <b>GROUP NET INCOME</b>   | <b>688</b>       | <b>8.6</b>   | <b>864</b>       | <b>10.7</b>  | <b>(176)</b> | <b>-20.4</b> |

## Consolidated Balance Sheet

In millions of euro

|  | at March 31, 2004 | at Dec. 31, 2003 | Change       |
|--|-------------------|------------------|--------------|
| Net fixed assets:  |                   |                  |              |
| > Tangible and intangible  | 50,404            | 50,731           | (327)        |
| > Financial  | 512               | 531              | (19)         |
| <b>Total</b>   | <b>50,916</b>     | <b>51,262</b>    | <b>(346)</b> |
| Net current assets:  |                   |                  |              |
| > Trade receivables  | 7,138             | 6,991            | 147          |
| > Inventories  | 4,349             | 4,211            | 138          |
| > Other assets and net receivables from<br>Electricity Equalization Fund | 982               | 986              | (4)          |
| > Net tax (payables) receivables   | (746)             | (780)            | 34           |
| > Trade payables   | (5,334)           | (5,835)          | 501          |
| > Other liabilities  | (7,961)           | (7,627)          | (334)        |
| <b>Total</b>   | <b>(1,572)</b>    | <b>(2,054)</b>   | <b>482</b>   |
| <b>Gross capital employed</b>  | <b>49,344</b>     | <b>49,208</b>    | <b>136</b>   |
| Provisions:  |                   |                  |              |
| > Employee termination indemnity   | (1,299)           | (1,298)          | (1)          |
| > Retirement benefits  | (458)             | (462)            | 4            |
| > Net deferred taxes   | (1,040)           | (476)            | (564)        |
| > Other provisions   | (1,449)           | (1,483)          | 34           |
| <b>Total</b>   | <b>(4,246)</b>    | <b>(3,719)</b>   | <b>(527)</b> |
| <b>Net capital employed</b>  | <b>45,098</b>     | <b>45,489</b>    | <b>(391)</b> |
| Group Shareholders' Equity   | 21,816            | 21,124           | 692          |
| Minority interests   | 197               | 191              | 6            |
| <b>Total Shareholders' Equity</b>  | <b>22,013</b>     | <b>21,315</b>    | <b>698</b>   |
| Net financial debt   | 23,085            | 24,174           | (1,089)      |
| <b>TOTAL</b>   | <b>45,098</b>     | <b>45,489</b>    | <b>(391)</b> |

## Financial review

**Income Statement** In the 1st Quarter of 2004, *revenues from the sale and transport of electricity and Electricity Equalization Fund contributions* amounted to euro 5,315 million, growing by euro 176 million over the same period in 2003 (up 3.4%) due mainly to the following factors:

- > higher revenues from the sale and transport of electricity for the domestic regulated market that increased from euro 4,243 million to euro 4,407 million (up euro 164 million, or 3.9%). The application from January 1, 2004 of mechanisms for the equalization of distributors' margins introduced by Authority Resolution no. 5/04 resulted in a euro 304 million increase in revenues (expected to be reabsorbed during the year). Such amount is partly offset by the reduction in quantities sold (primarily to resellers) and to the 3% reduction in the tariff component covering fuel costs, in addition to the impact of the new tariff system introduced by the Authority for years 2004-2007, coming into effect from February 1, 2004;
- > euro 64 million increase in revenues from electricity sales of international operations (up from euro 179 million to euro 243 million), of which euro 41 million due to the inclusion of Maritza and Enel Unión Fenosa Renovables in the scope of consolidation;
- > euro 60 million decline in Electricity Equalization Fund contributions, relating to previous years' electricity generation of plants falling under the incentives of CIP Regulation no. 6/92.

*Revenues from telecommunication services* provided to third parties increased in the Quarter by euro 52 million (up 5.5%), growing from euro 947 million to euro 999 million. The euro 68 million growth of revenues from mobile telecommunication services (up from euro 496 million to euro 564 million) and revenues generated on the Greek market, amounting to euro 25 million, were partly offset by the euro 44 million decline in revenues from fixed-line telephone and Internet services (down from euro 417 million to euro 373 million).

*Gas sold to end-users* grew from euro 495 million in the 1st Quarter of 2003 to euro 560 million in the current period (up euro 65 million, or 13.1%) due primarily to the higher volume of gas sold, up from 1,754 million cubic meters in the 1st Quarter of 2003 to 2,099 million cubic meters in the current period (up 19.7%).

*Revenues from other services, sales and revenues* declined in the Quarter by euro 333 million on the 1st Quarter of 2003 (from euro 1,488 million to euro 1,155 million) due primarily to the euro 254 million decline in fuel trading revenues, of which euro 126 million relating to natural gas and euro 128 million to other fuels. It is to be noted that in the last months of 2003 the supply of fuel to Eurogen (now Edipower) and Interpower (now Tirreno Power), no longer part of the Group, was terminated. In the 1st Quarter of 2003 the item included a prize of euro 32 million awarded by the Authority for Electricity and Gas to Enel Distribuzione for improvements achieved in 2001 in the quality of its electricity supply service and an equal amount relating to revenues recorded by Wind as a result of the definition on the part of the Authority for Telecommunications (AT) of interconnection fees for 2002.

*Personnel costs* amount in the Quarter to euro 824 million, declining by euro 52 million (down 5.9%), vis-à-vis a reduction in the average headcount of 8.2%. The higher average cost per employee (up 2.5%) reflects normal pay progression.

*The cost of fuel consumed for thermal generation* declines in the 1st Quarter of 2004 by euro 76 million (down 8.1%). Excluding the effect of the change in the scope of consolidation due to Maritza and Enel Unión Fenosa Renovables, it declines by euro 88 million (down 9.4%). Such change can be attributed to the decline in the price of natural gas and fuel oil on the 1st Quarter of 2003, and to savings achieved thanks to the coming into operation of new combined-cycle plants.

*The cost of electricity purchased* is equal to euro 1,438 million, declining by euro 10 million (down 0.7%) on the same period in 2003, against a 1.8% reduction in the volume of electricity purchased.

*Interconnection and roaming costs* decline in the 1st Quarter of 2004 by euro 14 million (down 4.1%) as a result of benefits deriving from the development of proprietary networks, allowing to reduce traffic diverted to other operators.

*The cost of services, leases and rentals* amounted to euro 972 million, increasing by euro 61 million (up 6.7%) on the 1st Quarter of 2003. Net of the euro 8 million increase resulting from the wider scope of consolidation (Maritza and Enel Unión Fenosa Renovables), the growth is due primarily to the following factors:

- > euro 19 million increase in advertising costs due primarily to the launch of i-mode services and the "Happy Night" offer by Wind;
- > a euro 12 million increase in the cost of electricity and gas transport;
- > a euro 13 million increase in the cost of information technology services received and a euro 7 million growth in commercial costs in the telecommunications sector.

*The cost for the purchase of fuel for trading and gas for resale to end-users* declines in the Quarter by euro 181 million (down 21.2%) from euro 853 million in the first three months of 2003, to euro 672 million in the current period.

Costs for the purchase of fuel for trading (including natural gas) decline by euro 221 million, while those for natural gas sold to end-users grew by euro 40 million due the respective performance of sales.

*The cost of materials consumed* declined in the 1st Quarter of 2004 by euro 8 million (down 2.4%) on the 1st Quarter of 2003. Lower internal constructions in the Networks, Infrastructure and Sales Divisions were partly offset by higher requirements of Engineering and Contracting construction activities for third parties.

*Other costs* amounted to euro 181 million, down euro 42 million (an 18.8% decline) due primarily to the following factors:

- > euro 16 million decline in non-recurring expenses due primarily to lower adjustments recognized by the ISO on electricity transported in the previous year;
- > euro 13 million decline in costs relating to green certificates;
- > euro 8 million decline in costs incurred by Enel Distribuzione in connection with the electricity system resulting from electricity usage efficiency regulations (energy efficiency certificates), the use of 'clean' energy (green certificates) and improvements in the continuity of service. Such reduction is due to the replacement of charges for the improvement in the continuity of service, retrieved through sales tariffs in 2003, with a new tariff component recorded among payables to the Electricity Equalization Fund;
- > cancellation of the partial reimbursement mechanism for the margin generated on imports of electricity for the regulated market (Authority Resolution no. 226/02) equal, in the 1st Quarter of 2003, to a euro 7 million charge.

*Capitalized costs* declined by euro 16 million due primarily to lower internal construction of plant for the Networks and Infrastructure Division, as described above.

*Gross operating margin* in the 1st Quarter of 2004 amounts to euro 2,642 million, up euro 266 million on the 1st Quarter of 2003 (an 11.2% increase).

The breakdown by division is shown in the table below.

#### Gross operating margin

| In millions of euro                 | 1st Quarter  |              |            |
|-------------------------------------|--------------|--------------|------------|
|                                     | 2004         | 2003         | Change     |
| Generation and Energy Management    | 993          | 1,171        | (178)      |
| Networks, Infrastructure and Sales  | 952          | 572          | 380        |
| International Operations            | 77           | 57           | 20         |
| Transmission networks               | 210          | 183          | 27         |
| Telecommunications                  | 285          | 230          | 55         |
| Parent Company and Other activities | 125          | 163          | (38)       |
| <b>Total</b>                        | <b>2,642</b> | <b>2,376</b> | <b>266</b> |

Main factors contributing to the change in gross operating margin are described in the analysis of Results by Division.

*Operating income* for the 1st Quarter of 2004 amounted to euro 1,560 million, increasing by euro 356 million on the same period in 2003 (up 29.6%). The higher increase in absolute terms with respect to the gross operating margin is due to a euro 90 million decline in depreciation, amortization and accruals (down 7.7%).

The extension of the useful life of domestic electricity transmission and distribution lines resulted in a euro 145 million reduction in depreciation charges, of which euro 120 million relating to the Networks, Infrastructure and Sales Divisions and euro 25 million to Terna. Such effect was partly offset by the euro 73 million increase in depreciation and amortization charges in the Telecommunications area (net of the change in the scope of consolidation due to the contribution of Enel.Net), of which euro 32 million relating to the amortization of the cost for the acquisition of the UMTS license (not recorded in the 1st Quarter of 2003), euro 28 million to the consolidation difference on the acquisition on July 1, 2003 of the 26.6% share in the capital stock of Wind held by France Telecom, and euro 13 million relating to the growth of the proprietary telecoms network.

Accruals and write-downs declined in the first three months of 2004 by euro 13 million due mainly to the cancellation of the annual contribution on telecommunications services (turnover contribution).

The *net financial expense* amounted to euro 285 million, increasing by euro 9 million (up 3.3%) on the first three months of 2003, due primarily to the higher average debt.

*Net extraordinary items* are negative and amount to euro 19 million, as compared with positive euro 338 million in the 1st Quarter of 2003. The balance for the 1st Quarter of 2004 consists primarily of charges on early retirement incentives amounting to euro 30 million, partly offset by non-recurring income of various nature amounting to euro 11 million.

The balance for the first three months of 2003 included primarily the capital gain recorded on the disposal of Interpower, equal to euro 359 million, capital gains on the disposal of other assets, amounting to euro 18 million, and charges on early retirement incentives totaling euro 37 million.

*Income taxes* for the first three months of 2004 amounted to euro 566 million, representing a 45.1% implied tax rate. In the same period in 2003, the implied tax rate was equal to 34.8% as a result of the benefit deriving from the taxation of the capital gain on the disposal of Interpower at a reduced tax rate.

The estimated average normalized tax rate for 2004 is 44%, as compared with 45% in 2003, as a result of the replacement of IRPEG (34%) with IRES (33%).

The implied tax rate for the 1st Quarter of 2004 (45.1%) takes into account the impact of the IRAP (local corporate tax) component on the loss reported by the Telecommunications sector, not included in the estimated 44% average normalized tax rate.

## Cash flows and debt

*Cash flows* for the 1st Quarter of 2004 and 2003 are shown in the Statement of Cash Flows below.

| In millions of euro                                      | 1st Quarter                    |                                |
|--|--------------------------------|--------------------------------|
|  | 2004                           | 2003                           |
| <b>Net financial debt at beginning of period</b>         | (24,174) <sup>(1)</sup>        | (24,467) <sup>(1)</sup>        |
| <b>Cash generated by current operating activities</b>    | <b>1,772</b>                   | <b>1,578</b>                   |
| Capital expenditure                                      | (624)                          | (771)                          |
| Investments in consolidated subsidiaries                 | (77)                           | (122)                          |
| Disposal of consolidated subsidiaries and other assets   | 18                             | 904                            |
| <b>Cash (employed) generated by investing activities</b> | <b>(683)</b>                   | <b>11</b>                      |
| Capital increases contributed by third parties           | 5                              | 35                             |
| Foreign exchange differences on financial debt           | (5)                            | 12                             |
| <i>Change in net financial debt</i>                      | <i>1,089</i>                   | <i>1,636</i>                   |
| <b>Net financial debt at end of period</b>               | <b>(23,085) <sup>(2)</sup></b> | <b>(22,831) <sup>(2)</sup></b> |

(1) January 1, 2003 and 2004.

(2) March 31, 2003 and 2004.

*Cash generated by current operating activities* in the 1st Quarter of 2004 amounts to euro 1,772 million, up euro 194 million on the same period in 2003, reflecting results of operations.

*Cash employed in investing activities* amounted in the 1st Quarter of 2004 to euro 683 million, of which euro 624 million relating to capital expenditure, and euro 77 million to the acquisition of equity investments in consolidated subsidiaries. Of these, euro 41 million relate to the acquisition of Sicilmetano and Sicilmetano Energy, operating in the gas sector, and euro 36 million to the acquisition of equity investments in subsidiaries active in the generation of electricity from renewable resources in North America.

Disposals in the first three months of 2004 consist primarily of equity investments in the environmental sector, amounting to euro 15 million. In the 1st Quarter of 2003, the amount included primarily proceeds from the disposal of Interpower (euro 798 million).

Changes in *net financial debt* are shown in the table below.

In millions of euro

|  | at March 31, 2004 | at Dec. 31, 2003 | Change         |
|--|-------------------|------------------|----------------|
| Medium- and long-term debt:                |                   |                  |                |
| > Bank loans                               | 11,919            | 11,951           | (32)           |
| > Bonds                                    | 10,581            | 10,431           | 150            |
| > Other loans                              | 183               | 166              | 17             |
| <b>Medium- and long-term debt</b>          | <b>22,683</b>     | <b>22,548</b>    | <b>135</b>     |
| > Own bonds and other items                | (528)             | (532)            | 4              |
| > Medium- and long-term guarantee deposits | (1,528)           | (1,528)          | -              |
| <b>Net medium- and long-term debt</b>      | <b>20,627</b>     | <b>20,488</b>    | <b>139</b>     |
| Short-term debt:                           |                   |                  |                |
| > Bank loans:                              |                   |                  |                |
| - use of revolving credit lines            | 577               | 1,172            | (595)          |
| - other short-term bank debt               | 1,242             | 1,999            | (757)          |
|  | 1,819             | 3,171            | (1,352)        |
| > Commercial paper                         | 1,499             | 1,457            | 42             |
| > Other short-term financial debt          | 6                 | 4                | 2              |
| <b>Short-term debt</b>                     | <b>3,324</b>      | <b>4,632</b>     | <b>(1,308)</b> |
| Factoring receivables                      | (486)             | (487)            | 1              |
| Financial receivables from associates      | (7)               | (7)              | -              |
| Cash at banks and marketable securities    | (373)             | (452)            | 79             |
| <b>Net short-term financial debt</b>       | <b>2,458</b>      | <b>3,686</b>     | <b>(1,228)</b> |
| <b>NET FINANCIAL DEBT</b>                  | <b>23,085</b>     | <b>24,174</b>    | <b>(1,089)</b> |

Net financial debt declined in the 1st Quarter of 2004 by euro 1,089 million due to the financial flows shown above. These flows were used primarily to reduce short-term debt.



## Balance Sheet

*Tangible and intangible assets* declined in the Quarter by euro 327 million. Tangible assets declined by euro 84 million due primarily to depreciation charges amounting to euro 702 million, net of capital expenditure amounting to euro 593 million. Intangible assets declined by euro 243 million as a result of the spread between the amortization charge for the period and the increase due to capital expenditure and changes in the scope of consolidation.

*Financial assets* decreased by euro 19 million due primarily to the retrieval of withholding taxes on employee termination indemnity as a result of a reduction in the headcount.

*Net current assets* at March 31, 2004 amount to negative euro 1,572 million, as compared with a negative balance of euro 2,054 million at December 31, 2003. The change, equal to euro 482 million, is due mainly to the following factors:

- > a euro 147 million increase in trade receivables, prevalently in the electricity sector, partly due to the effect of the refining of techniques for measuring electricity distributed at the end of the period;
- > a euro 138 million increase in inventories, attributable prevalently to the growth in contract work carried out by the Engineering and Contracting sector;
- > a euro 501 million decline in trade payables due mainly to outlays for capital expenditure;
- > increase in other liabilities, up euro 334 million, due mainly to the growth in advances paid by customers in the Engineering and Contracting sector (up euro 173 million) and accrued liabilities (up euro 247 million) due to interest accrued and to items such as 13th monthly salary payments. These increases are partly offset by a euro 129 million reduction in payables to personnel.

*Provisions* increase by euro 527 million due mainly to the growth in the net deferred tax provision (up euro 564 million) that includes income taxes accrued for the Quarter.

*Net capital employed* declines from euro 45,489 million at December 31, 2003 to euro 45,098 million at March 31, 2004, down euro 391 million. Shareholders' Equity (Group and minority interests) amounts to euro 22,013 million and net financial debt amounts to euro 23,085 million. The debt to equity ratio is equal to 1.05 (1.13 at December 31, 2003).

## Results by Division

| In millions of euro                              |         | 1st Quarter |        |        |
|--|---------|-------------|--------|--------|
|  | 2004    | 2003        | Change |        |
| <b>Generation and Energy Management</b>          |         |             |        |        |
| Revenues   | 2,967   | 3,460       | (493)  | -14.2% |
| Gross operating margin                           | 993     | 1,171       | (178)  | -15.2% |
| Operating income                                 | 722     | 893         | (171)  | -19.1% |
| <b>Networks, Infrastructure and Sales</b>        |         |             |        |        |
| Revenues   | 5,466   | 5,257       | 209    | 4.0%   |
| Gross operating margin                           | 952     | 572         | 380    | 66.4%  |
| Operating income before amortization of goodwill | 758     | 260         | 498    | -      |
| Operating income                                 | 746     | 247         | 499    | -      |
| <b>International Operations</b>                  |         |             |        |        |
| Revenues   | 251     | 190         | 61     | 32.1%  |
| Gross operating margin                           | 77      | 57          | 20     | 35.1%  |
| Operating income before amortization of goodwill | 44      | 29          | 15     | 51.7%  |
| Operating income                                 | 32      | 18          | 14     | 77.8%  |
| <b>Transmission networks</b>                     |         |             |        |        |
| Revenues   | 281     | 248         | 33     | 13.3%  |
| Gross operating margin                           | 210     | 183         | 27     | 14.8%  |
| Operating income                                 | 166     | 120         | 46     | 38.3%  |
| <b>Telecommunications</b>                        |         |             |        |        |
| Revenues   | 1,075   | 1,044       | 31     | 3.0%   |
| Gross operating margin                           | 285     | 230         | 55     | 23.9%  |
| Operating income before amortization of goodwill | (38)    | (57)        | 19     | 33.3%  |
| Operating income                                 | (177)   | (168)       | (9)    | -5.4%  |
| <b>Parent Company</b>                            |         |             |        |        |
| Revenues   | 240     | 263         | (23)   | -8.7%  |
| Gross operating margin                           | 58      | 56          | 2      | 3.6%   |
| Operating income                                 | 52      | 50          | 2      | 4.0%   |
| <b>Services and Other activities</b>             |         |             |        |        |
| Revenues   | 481     | 555         | (74)   | -13.3% |
| Gross operating margin                           | 72      | 136         | (64)   | -47.1% |
| Operating income                                 | 24      | 73          | (49)   | -67.1% |
| <b>Adjustments and elisions</b>                  |         |             |        |        |
| Revenues   | (2,732) | (2,948)     | 216    | -      |
| Gross operating margin                           | (5)     | (29)        | 24     | -      |
| Operating income                                 | (5)     | (29)        | 24     | -      |
| <b>Total Group</b>                               |         |             |        |        |
| Revenues   | 8,029   | 8,069       | (40)   | -0.5%  |
| Gross operating margin                           | 2,642   | 2,376       | 266    | 11.2%  |
| Operating income before amortization of goodwill | 1,723   | 1,339       | 384    | 28.7%  |
| Operating income                                 | 1,560   | 1,204       | 356    | 29.6%  |

## Generation and Energy Management

The Division includes electricity generation and energy related activities in Italy and abroad, managing the following areas:

- > Electricity:
  - generation in Italy through Enel Produzione (thermal and hydroelectric power) and Enel Green Power (geothermal, wind and hydroelectric power);
  - sale on the domestic market to "large electricity users" (end-users with an annual consumption in excess of 100 million kWh) and wholesalers, through Enel Trade;
  - trading on international markets, through Enel Trade.
- > Energy products, through Enel Trade:
  - procurement of energy products for all Group activities (electricity generation, trading, sale of natural gas to end-users);
  - sale of natural gas to "distributors";
  - trading on international markets.
- > Logistic Services, through Enel Logistica Combustibili.
- > Technologies linked to the development of alternative energy resources, through Conphoebus.

To allow comparability of figures previously reported for the 1st Quarter of 2003, "International Operations", represented at the time by Spanish company Viesgo Generación and American subsidiaries Enel North America and Enel Latin America, have been reclassified under the division in which they operate.

### Generation and Energy Management

| In millions of euro           | 1st Quarter |                       |        |        |
|-------------------------------|-------------|-----------------------|--------|--------|
|                               | 2004        | 2003                  | Change |        |
| Revenues                      | 2,967       | 3,460                 | (493)  | -14.2% |
| Gross operating margin        | 993         | 1,171                 | (178)  | -15.2% |
| Operating income              | 722         | 893                   | (171)  | -19.1% |
| Net capital employed          | 11,399      | 11,947 <sup>(1)</sup> | (548)  | -4.6%  |
| Employees at period-end (no.) | 10,241      | 10,318 <sup>(1)</sup> | (77)   | -0.7%  |
| Capital expenditure           | 118         | 100                   | 18     | 18.0%  |

(1) At December 31, 2003.

## Electricity generation

## Enel net domestic electricity generation

| In millions of kWh | 1st Quarter   |               |              |              |
|--------------------|---------------|---------------|--------------|--------------|
|                    | 2004          | 2003          | Change       |              |
| Thermal            | 24,602        | 24,382        | 220          | 0.9%         |
| Hydroelectric      | 6,054         | 7,017         | (963)        | -13.7%       |
| Geothermal         | 1,297         | 1,248         | 49           | 3.9%         |
| Other resources    | 62            | 21            | 41           | 195.2%       |
| <b>Total</b>       | <b>32,015</b> | <b>32,668</b> | <b>(653)</b> | <b>-2.0%</b> |

Net electricity generation declined in the 1st Quarter of 2004 by 2.0% over the 1st Quarter of 2003. Thermal generation increased in the Quarter by about 0.9% while hydroelectric generation declined by 13.7% due to the lower water supply than in the first three months of 2003. Generation from other resources almost trebled due to the coming into operation of new wind generation plants.

## Contribution to gross thermal generation

| In millions of kWh                    | 1st Quarter   |               |               |               |              |              |
|---------------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|
|                                       | 2004          |               | 2003          |               | Change       |              |
| High-sulfur content fuel oil (S>0.5%) | 2,167         | 8.3%          | 2,159         | 8.3%          | 8            | 0.4%         |
| Low-sulfur content fuel oil (S<0.5%)  | 3,884         | 14.9%         | 4,126         | 16.0%         | (242)        | -5.9%        |
| <i>Total fuel oil</i>                 | <i>6,051</i>  | <i>23.2%</i>  | <i>6,285</i>  | <i>24.3%</i>  | <i>(234)</i> | <i>-3.7%</i> |
| Natural gas                           | 10,402        | 39.9%         | 10,793        | 41.7%         | (391)        | -3.6%        |
| Coal                                  | 8,643         | 33.2%         | 8,420         | 32.6%         | 223          | 2.6%         |
| Orimulsion and other fuels            | 956           | 3.7%          | 372           | 1.4%          | 584          | 157.0%       |
| <b>TOTAL</b>                          | <b>26,052</b> | <b>100.0%</b> | <b>25,870</b> | <b>100.0%</b> | <b>182</b>   | <b>0.7%</b>  |

The breakdown above shows a reduction in generation from fuel oil and natural gas due to changes in the price of the related commodities, and a corresponding increase in electricity generated from cheaper fuels (coal and orimulsion), benefiting from the higher availability of plants fired on such fuels. Generation from natural gas reported a shift from the use of traditional oil/gas plants to the new combined-cycle plants, allowing for savings of about 8% in fuel consumption.

The use of orimulsion grew on the 1st Quarter of 2003 that had been affected by difficulties in procurement caused by strikes in Venezuela.

The Veneto Region renewed for one year the authorization for the experimental use of fuel produced from the firing of waste together with coal at the Fusina plant.

**Operating performance** *Revenues* for the 1st Quarter of 2004 amount to euro 2,967 million, declining by euro 493 million (down 14.2%) on the same period in 2003, due mainly to the following factors:

- > lower revenues from the sale of fuel for trading, down about euro 254 million due to the termination of supply contracts with generation companies sold;
- > a decline in net generation (down 2.0%) and of the tariff component aimed at covering fuel costs (down 3.0%), with an impact on revenues of about euro 180 million;
- > a euro 60 million reduction in Electricity Equalization Fund contributions on past years' generation of plants falling under the incentives of CIP Regulation no. 6/92.

The *gross operating margin* for the 1st Quarter of 2004 amounts to euro 993 million, declining by euro 178 million (down 15.2%) on the 1st Quarter of 2003 (euro 1,171 million) due mainly to the following factors:

- > a reduction in both hydroelectric generation (down 13.7%) and the variable component of the price of electricity linked to energy prices, with a negative impact on the gross operating margin of about euro 110 million;
- > a euro 35 million reduction due to a changed mix of sales between the different time bands;
- > a euro 60 million reduction in the above-mentioned Electricity Equalization Fund contributions;
- > lower margins reported by Enel Trade, down euro 30 million, as a result of a decline in volumes traded;
- > a euro 55 million increase in the positive spread between the tariff component aimed at covering fuel costs and the actual cost of fuels used in thermal generation. The increase is due to the gradual shift in the fuel mix towards cheaper fuels (coal and orimulsion) in addition to the higher efficiency of generation plants due to the coming into service of combined-cycle plants.

The *operating income* for the Quarter amounts to euro 722 million, down from euro 893 million in the first three months of 2003. The euro 171 million decline in operating income (down 19.1%) is in line with that of the gross operating margin.

## Networks, Infrastructure and Sales

Enel's Group structure includes two specific operating divisions:

- > *Networks and Infrastructure*, that consists of electricity and gas network operations;
- > *Sales*, developing an integrated offer of products and services in the field of electricity and gas through specialized distribution channels.

Due to the current transitional stage leading to the adoption of rules for the unbundling of the above activities, in the analysis that follows they are considered jointly, separating the electricity and gas sectors.

### Networks, Infrastructure and Sales

| In millions of euro                              | 1st Quarter |                       |         |        |
|--|-------------|-----------------------|---------|--------|
|  | 2004        | 2003                  | Change  |        |
| <b>Electricity</b>                               |             |                       |         |        |
| Revenues   | 4,894       | 4,737                 | 157     | 3.3%   |
| Gross operating margin                           | 805         | 454                   | 351     | 77.3%  |
| Operating income                                 | 631         | 162                   | 469     | -      |
| <b>Gas</b>                                       |             |                       |         |        |
| Revenues   | 572         | 520                   | 52      | 10.0%  |
| Gross operating margin                           | 147         | 118                   | 29      | 24.6%  |
| Operating income before amortization of goodwill | 127         | 98                    | 29      | 29.6%  |
| Operating income                                 | 115         | 85                    | 30      | 35.3%  |
| <b>Total</b>                                     |             |                       |         |        |
| Revenues   | 5,466       | 5,257                 | 209     | 4.0%   |
| Gross operating margin                           | 952         | 572                   | 380     | 66.4%  |
| Operating income before amortization of goodwill | 758         | 260                   | 498     | -      |
| Operating income                                 | 746         | 247                   | 499     | -      |
| Net capital employed                             | 12,040      | 11,360 <sup>(1)</sup> | 680     | 6.0%   |
| Employees at period-end (no.)                    | 35,203      | 36,424 <sup>(1)</sup> | (1,221) | -3.4%  |
| Capital expenditure                              | 330         | 393                   | (63)    | -16.0% |

(1) At December 31, 2003.

## Electricity

The sector includes:

- > Enel Distribuzione (electricity distribution network serving the free and regulated market; sale of electricity on the regulated market);
- > Deval (activities similar to those of Enel Distribuzione but limited to the Valle d'Aosta Region);
- > Enel Energia (sale of electricity on the free market to customers with an annual consumption below 100 million kWh);
- > Enel Sole (public and art lighting) and Enel.si (franchising and equipment installation).

Results for the 1st Quarter of 2003, reported for comparative purposes, do not include electricity distribution activities in Spain (Electra de Viesgo Distribución), reattributed to the International Operations Division.

**Operating performance** *Revenues* for the Quarter reported by companies in the Networks, Infrastructure and Sales Divisions amount to euro 4,894 million, growing by euro 157 million (up 3.3%) on the same period in 2003 due mainly to the following factors:

- > the application from January 1, 2004 of a mechanism for the equalization of margins earned by distributors, introduced by Authority Resolution no. 5/04, resulting in the recording of euro 304 million in revenues, expected to be gradually reabsorbed by the end of the year. Such mechanism maintains different wholesale prices for electricity according to the time of use and the season (prices are higher in the autumn and winter months) and equalizes margins earned by distributors during the year, through the action of the Electricity Equalization Fund. As a result, euro 304 million were recorded in the 1st Quarter of 2004 as revenue from the Electricity Equalization Fund, expected to be reabsorbed in the course of the year due to lower electricity prices recognized in the summer months;
- > a euro 23 million increase in revenues from Enel Energia from sales on the free market;
- > a euro 143 million reduction in revenues from Enel Distribuzione and Deval from the sale and transport of electricity, of which euro 76 million relating to end-users and euro 67 million due to lower amounts of electricity supplied to resellers;
- > a euro 20 million decline in other revenues from Enel Distribuzione and a euro 5 million decline in revenues from Enel Sole.

## Sale and transport of electricity (Enel Distribuzione and Deval)

|                | In millions of kWh              |                              |        | In millions of euro | €/kWh | In millions of kWh              |                              |        | In millions of euro | €/kWh |
|----------------|---------------------------------|------------------------------|--------|---------------------|-------|---------------------------------|------------------------------|--------|---------------------|-------|
|                | Transported for the free market | Sold on the regulated market | Total  |                     |       | Transported for the free market | Sold on the regulated market | Total  |                     |       |
|                | 1st Quarter 2004                |                              |        |                     |       | 1st Quarter 2003                |                              |        |                     |       |
| High-voltage   | 10,883                          | 1,195                        | 12,078 | 139                 | 1.15  | 11,445                          | 1,217                        | 12,662 | 153                 | 1.21  |
| Medium-voltage | 15,396                          | 6,195                        | 21,591 | 715                 | 3.31  | 12,842                          | 8,357                        | 21,199 | 886                 | 4.18  |
| Low-voltage    | 1,062                           | 28,368                       | 29,430 | 3,045               | 10.35 | 223                             | 26,138                       | 26,361 | 2,936               | 11.14 |
| Total          | 27,341                          | 35,758                       | 63,099 | 3,899               | 6.18  | 24,510                          | 35,712                       | 60,222 | 3,975               | 6.60  |

Total revenues from the *sale (regulated market) and transport of electricity*, excluding supplies to resellers, amount in the 1st Quarter of 2004 to euro 3,899 million, down euro 76 million (a 1.9% decline) on the same period in 2003. Sales on the regulated market amount in the 1st Quarter of 2004 to 35,758 million kWh in line with the same period in 2003 (35,712 million kWh), benefiting also from the refining of techniques for the metering of electricity purchased and distributed, but not yet billed at the end of the Quarter. The volume of electricity transported on behalf of the free market increases by 2,831 million kWh (up 11.6%). Total electricity distributed increases by 4.8% on the same period in 2003 (by 1.8% net of the impact deriving from the mentioned refining of metering techniques).

Average unit revenues per kWh distributed declines from €€ 6.60 to €€ 6.18 (down 6.4%) due to the following factors, analyzed by voltage segment:

- > revenues from the sale of high-voltage electricity decline by euro 14 million (down 9.2%), with a 4.6% decline in electricity distributed. The 5.0% reduction in the average price reflects primarily the decline in the tariff component covering fuel prices (Ct parameter) and the impact of new tariff system for years 2004-2007 (effective from February 1, 2004);
- > revenues from the sale of medium-voltage electricity amounted to euro 715 million, representing a decline of euro 171 million (down 19.3%) on the 1st Quarter of 2003, while electricity distributed grew by 392 million kWh (up 1.8%). The decline in the average price (down €€ 0.87 per kWh, equal to 20.8%) reflects primarily the change in the different mix between non-eligible customers (with a 2,162 million kWh reduction, equal to 25.9%) and eligible ones (with a 2,554 million kWh increase, equal to 19.9%). For the latter, revenues are represented by tariff components aimed at remunerating network operating and sales costs, while non-eligible customers are charged the full price that covers also the cost of electricity sold. Such effect was amplified by tariff reductions described in the paragraph above;



> revenues from the sale of low-voltage electricity amounted to euro 3,045 million, increasing by euro 109 million (up 3.7%) on the 1st Quarter of 2003, while electricity distributed grew by 11.6% (up 3,069 million kWh) due to the mentioned refining of techniques for the metering of electricity distributed and not yet billed at the end of the Quarter. The average price of electricity distributed declines by 7.0% due to the mentioned changes in tariffs and the growth in the weight of electricity transported for the free market.

Electricity supplied to resellers (sales and transport) declined by euro 67 million, from euro 303 million in the 1st Quarter of 2003, to euro 236 million in the current Quarter.

With regard to the free market, Enel Energia's sales to eligible end-users and other operators (including infragroup adjustments with Enel Trade) grow by euro 23 million, as detailed below.

|                             | In millions<br>of euro | In millions<br>of kWh | In millions<br>of euro | In millions<br>of kWh | In millions<br>of euro | In millions<br>of kWh |
|-----------------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
|                             | 1st Quarter 2004       |                       | 1st Quarter 2003       |                       | Change                 |                       |
| Sales to eligible end-users | 153                    | 1,639                 | 126                    | 1,367                 | 27                     | 272                   |
| Sales to other operators    | 1                      | 25                    | 2                      | 45                    | (1)                    | (20)                  |
|                             | <b>154</b>             | <b>1,664</b>          | <b>128</b>             | <b>1,412</b>          | <b>26</b>              | <b>252</b>            |
| Infragroup adjustments      | 8                      | -                     | 11                     | -                     | (3)                    | -                     |
| <b>Total</b>                | <b>162</b>             | <b>1,664</b>          | <b>139</b>             | <b>1,412</b>          | <b>23</b>              | <b>252</b>            |

The growth in sales to end-users (up 19.9%) is the result of sales campaigns aimed primarily at medium-size customers (with an annual consumption included between 0.1 and 1 million kWh).

Considering also sales made by Enel Trade to end-users, amounting to 3,346 million kWh, the Group's domestic free market sales in the Quarter amount to 5,010 million kWh, up 94.6% on the 1st Quarter of 2003 (growing by 2,436 million kWh), benefiting from the 2,164 million kWh increase in sales to large electricity users made by Enel Trade.

*Gross operating margin* grows in the Quarter by euro 805 million, increasing by euro 351 million (up 77.3%) on the same period in 2003. The application of the mentioned equalization mechanism determined a seasonal increase equal to euro 304 million.

On a comparative basis with the 1st Quarter of 2003, gross operating margin increases by euro 47 million (up 10.4%). The reduction in personnel costs (down euro 34 million) and the increase in electricity transported allowed to counter the tariff reduction introduced for years 2004-2007, effective February 1, 2004.

*Operating income* for the 1st Quarter of 2004 amounts to euro 631 million, as compared with euro 162 million in the same period in 2003. The euro 469 million increase reflects primarily the euro 351 million increase in the gross operating margin and the reduction in the depreciation expense resulting from the extension of the useful economic life of distribution networks to bring it into line with international practice.

## Gas

In the context of the Networks, Infrastructure and Sales Divisions, the distribution and sale of natural gas is carried out by the following main companies:

- > Enel Distribuzione Gas, Enel Rete Gas (formerly Camuzzi Gazometri), GE.AD. and Sicilmetano, owners of the distribution networks and the related concession for their management, issued at the local level;
- > Enel Gas and Sicilmetano Energy, to which the sale of gas to end-users is entrusted. This segment of the market does not require a concession and is completely liberalized from January 1, 2003.

Procurement and sale to "distributors" is carried out by Enel Trade, part of the Generation and Energy Management Division.

In the 1st Quarter of 2004, the restructuring process started in 2003 and aimed at the disposal of companies operating in the waste management sector and at the strengthening of Enel's presence in the sector of the distribution and sale of natural gas continued.

In this context, Aimeri was sold for euro 14 million, while Sicilmetano and Sicilmetano Energy were acquired for euro 41 million. The first of the two companies acquired is active in the distribution of natural gas in a number of Sicilian provinces, managing the related concessions in 15 municipalities, with 61,000 customers connected, of which 37,000 active. The second manages sales activities in the same area.

*Revenues* in the 1st Quarter of 2004 amounted to euro 572 million, as compared with euro 520 million in the 1st Quarter of 2003, representing an increase of euro 52 million (up 10.0%). Revenues from the sale of natural gas amounted to euro 560 million, growing by euro 65 million (up 13.1%). Volumes of gas sold grow from 1,754 million cubic meters in the 1st Quarter of 2003, to 2,099 million cubic meter in the current period, increasing by 345 million cubic meters (up 19.7%), of which 215 million cubic meters relating to non-household customers which were the target of marketing actions. At the end of March 2004, customers served in the gas area were about 1.8 million, distributed throughout the Italian territory.

Taking into account also the activity of Enel Trade, that in the 1st Quarter of 2004 reported sales to third parties amounting to 606 million cubic meters of gas and revenues equal to euro 117 million, total gas sales of the Group amount to 2,705 million cubic meters, generating euro 677 million in revenues.

*Gross operating margin* for the 1st Quarter of 2004 amounts to euro 147 million, improving by euro 29 million (up 24.6%) on the 1st Quarter of 2003 as a result of higher volumes of gas sold and transported, coupled with savings in terms of procurement costs.

Considering that Enel Trade's procurement and sale of natural gas activities generated a gross operating margin of euro 24 million, the total margin generated by the Group amounts in the 1st Quarter of 2004 to euro 171 million, down euro 12 million on the 1st Quarter of 2003. The decline reported by Enel Trade amounts to euro 41 million and is due to lower volumes traded and the different margin on infragroup supplies.

*Operating income* in the 1st Quarter of 2004 is equal to euro 115 million, up euro 30 million (a 35.3% increase), in line with the improvement of the gross operating margin.

## International Operations

In 2003, electricity generation, distribution and sale activities outside of Italy were grouped into a Division, in charge also of business development activities through partnerships and acquisitions to be sought in the context of strategies outlined by the Parent Company.

The International Operations Division currently includes the following companies:

- > generation: Viesgo Generación and Enel Unión Fenosa Renovables (Spain), Maritza (Bulgaria), Enel North America (North America) and Enel Latin America (Central and South America);
- > distribution and sale: Electra de Viesgo Distribución and Viesgo Energía (Spain).

The comparability of results for the two periods considered is affected by the widening of the scope of activity resulting from the consolidation of Maritza and Enel Unión Fenosa Renovables, acquired respectively in April and December 2003.

Results for the 1st Quarter of 2003 relate to International operations separately reported under the Generation and Energy Management Division, in addition to the results of electricity distribution activities in Spain, which in the 1st Quarter of 2003 were included under the Networks, Infrastructure and Sales Divisions.

### International Operations

| In millions of euro                              | 1st Quarter |                      |        |       |
|--|-------------|----------------------|--------|-------|
|  | 2004        | 2003                 | Change |       |
| Revenues   | 251         | 190                  | 61     | 32.1% |
| Gross operating margin                           | 77          | 57                   | 20     | 35.1% |
| Operating income before amortization of goodwill | 44          | 29                   | 15     | 51.7% |
| Operating income                                 | 32          | 18                   | 14     | 77.8% |
| Net capital employed                             | 3,158       | 3,132 <sup>(1)</sup> | 26     | 0.8%  |
| Employees at period-end (no.)                    | 1,703       | 1,710 <sup>(1)</sup> | (7)    | -0.4% |
| Capital expenditure                              | 27          | 15                   | 12     | 80.0% |

(1) At December 31, 2003.

*Revenues* for the 1st Quarter of 2004 amount to euro 251 million, of which euro 194 million generated in Spain by Viesgo and Enel Unión Fenosa Renovables (as compared with euro 166 million in the 1st Quarter of 2003 relating to Viesgo alone), euro 27 million in North and South America (euro 24 million in the 1st Quarter of 2003), and euro 30 million reported by Bulgarian subsidiary Maritza. The euro 61 million growth in revenues can be ascribed to changes in the scope of consolidation, accounting for euro 42 million (of which euro 12 million relating to Enel Unión Fenosa Renovables), and to the euro 16 million increase registered by the Viesgo Group in generation activities, affected in the 1st Quarter of 2003 by the temporary unavailability of a number of plants as a result of planned maintenance and other technical reasons.

Electricity generated by international operations in the 1st Quarter of 2004 amounts to 3,200 million kWh (as compared with 1,734 million kWh in the 1st Quarter of 2003), of which 827 million kWh relating to Maritza and 374 million kWh to Enel Unión Fenosa Renovables.

Electricity sales of distribution companies operating in Spain amount to 1,103 million kWh, up 11.5% on the 1st Quarter of 2003 (in which it amounted to 989 million kWh).

*Gross operating margin* in the 1st Quarter of 2004 amounts to euro 77 million, increasing by euro 20 million (up 35.1%) on the 1st Quarter of 2003. The growth is due primarily to the consolidation of Maritza and Enel Unión Fenosa Renovables, generating a margin equal respectively to euro 12 million and euro 7 million.

*Operating income* for the 1st Quarter of 2004 amounts to euro 32 million, increasing by euro 14 million on the 1st Quarter of 2003 (up 77.8%), after depreciation and amortization charges recorded by Maritza (euro 1 million) and Enel Unión Fenosa Renovables (euro 3 million).

## Transmission networks

Terna owns the majority of the Italian National Transmission Network (NTN) and is responsible for the management, maintenance and development of the same, based on the guidelines provided by the Independent System Operator (ISO). On December 31, 2003, Terna acquired from Enelpower a controlling share in Brazilian companies Transmissora Sudeste Nordeste SA and Novatrans Energia SA, owners of two super-high voltage transmission lines in Brazil.

In the 1st Quarter of 2004, Terna was active in the preparatory work for an initial public offering, leading to the presentation of the Information Memorandum to Consob and the application for the listing to Stock Market authorities on March 12, 2004. Terna was reorganized and new By-laws, consistent with the reform of Company Law and its future listing on the stock exchange, were adopted. To optimize the financial structure of the company, a reduction of the capital stock from euro 2,036 million to euro 440 million was resolved, effective April 29, 2004. The operation will take place through the reimbursement to the Parent Company of euro 1,200 million and the accrual to equity reserves of the residual euro 396 million.

To improve comparability with figures for the 1st Quarter of 2003, results of Terna for the 1st Quarter of 2004 are reported separately from results of Brazilian subsidiaries for the same period. In the 1st Quarter of 2003, the operations of the latter were in fact included under "Services and Other activities". Revenues and margins reported by Brazilian subsidiaries in the 1st Quarter of 2003 were in any case insignificant due to the small portion of the network already in operation.

## Transmission networks

| In millions of euro           | 1st Quarter |                      |        |        |
|-------------------------------|-------------|----------------------|--------|--------|
|                               | 2004        | 2003                 | Change |        |
| <b>Terna</b>                  |             |                      |        |        |
| Revenues                      | 258         | 248                  | 10     | 4.0%   |
| Gross operating margin        | 194         | 183                  | 11     | 6.0%   |
| Operating income              | 152         | 120                  | 32     | 26.7%  |
| <b>Brazilian subsidiaries</b> |             |                      |        |        |
| Revenues                      | 23          |                      | 23     |        |
| Gross operating margin        | 16          |                      | 16     |        |
| Operating income              | 14          |                      | 14     |        |
| <b>Total</b>                  |             |                      |        |        |
| Revenues                      | 281         | 248                  | 33     | 13.3%  |
| Gross operating margin        | 210         | 183                  | 27     | 14.8%  |
| Operating income              | 166         | 120                  | 46     | 38.3%  |
| Net capital employed          | 3,608       | 3,580 <sup>(1)</sup> | 28     | 0.8%   |
| Employees at period-end (no.) | 2,903       | 2,821 <sup>(1)</sup> | 82     | 2.9%   |
| Capital expenditure           | 59          | 93 <sup>(2)</sup>    | (34)   | -36.6% |

(1) At December 31, 2003.

(2) Euro 62 million relating to Brazilian subsidiaries were reallocated from the "Services and Other activities" Division.

*Revenues* recorded by Terna in the 1st Quarter of 2004 grow by euro 10 million on the same period in the previous year, of which euro 6 million due to higher volume of electricity delivered and withdrawn from the network, in addition to the increase in transport fees. Revenues other than NTN fees increase by euro 4 million, due primarily to capital grants.

*Gross operating margin* grows by euro 11 million, reflecting the increase in revenues and a euro 1 million reduction in operating costs.

The *operating income* records a stronger growth (up euro 32 million) due primarily to the euro 25 million decline in depreciation expense resulting from the extension of the residual useful economic life of transmission lines. Depreciation charges for the 1st Quarter of 2003 were in fact calculated on higher depreciation rates.

## Telecommunications

Wind operates in the fixed and mobile telephone telecommunications and Internet services sector. Mobile and convergent services are offered under the Wind trademark, while fixed telephony services are offered under the Infostrada one. The Libero trademark is used for all Internet activities.

In the 1st Quarter of 2004, the Parent Company contributed to Wind the entire capital stock of Enel.Net, owner of the optic fiber backbone line (acquired on July 1, 2003 through a spin-off from Enel.it), and the transmitter network – so called “Parco Tower” – (consisting of base stations, pylons, poles and antenna supports). Figures for the 1st Quarter of 2004 of the telecommunications area include therefore, unlike in the corresponding period in 2003, figures relating to Enel.Net.

### Telecommunications

| In millions of euro                              | 1st Quarter |                       |        |        |
|--|-------------|-----------------------|--------|--------|
|  | 2004        | 2003                  | Change |        |
| Revenues   | 1,075       | 1,044                 | 31     | 3.0%   |
| Gross operating margin                           | 285         | 230                   | 55     | 23.9%  |
| Operating income before amortization of goodwill | (38)        | (57)                  | 19     | 33.3%  |
| Operating income <sup>(1)</sup>                  | (177)       | (168)                 | (9)    | -5.4%  |
| Net capital employed <sup>(1)</sup>              | 13,022      | 13,203 <sup>(2)</sup> | (181)  | -1.4%  |
| Employees at period-end (no.)                    | 8,673       | 8,769 <sup>(2)</sup>  | (96)   | -1.1%  |
| Capital expenditure                              | 72          | 144                   | (72)   | -50.0% |

(1) Includes the amortization of goodwill paid on the acquisition of Infostrada and the stake in Wind formerly owned by Deutsche Telekom and France Telecom. Goodwill relating to Wind's minor subsidiaries is also included.

(2) At December 31, 2003.

In the first three months of 2004, Wind increased its customer base in the mobile segment and continued to develop innovative services (i-mode™) and its product range.

In the *mobile telephone service* segment, Wind's activities focused on the development of customer loyalty and the acquisition of high-value customers able to generate an increase in traffic on its network, through the development of value added and multimedia services. The total number of Wind's mobile telephone service customers at the end of the Quarter amounts to about 10.2 million, as compared with 9.9 million at December 31, 2003. Wind's market share (on the total number of SIM cards) at the end of March 2004 is estimated at 17.8%, up from 17.3% at the end of 2003. Total voice traffic for the 1st Quarter of 2004 was equal to about 2.8 billion minutes, up 27% on the first three months of 2003. Revenues from mobile services amounted in the Quarter to euro 564 million, up 14% on the same period in 2003 (in which they amounted to euro 496 million). Wind's average monthly revenues per user (ARPU, calculated in comparable terms with that of other



mobile telephone operators), increased from euro 20.0 in the 1st Quarter of 2003 to euro 21.5 in the current period.

In the *fixed telephony* segment, Wind launched "Happy Night", an offer that allows customers to call free of charge any fixed-line telephone in the evening and at night. The company continued its campaign for the development of its direct access voice telephone service customer base (Unbundling of the Local Loop, ULL).

At the end of March 2004, Wind had a base of 2.8 million active customers, down about 10% on December 31, 2003 due to strong competitive pressure from the incumbent operator. Wind's voice traffic in the Quarter was equal to about 3.9 billion minutes, as compared with about 4.1 billion minutes in the 1st Quarter of 2003.

*Internet* activities record a decline in "dial-up" traffic, in line with voice service traffic, due partly to the gradual migration to broadband services (Asymmetric Digital Subscriber Line, ADSL). At March 31, 2004, Wind continues to be the leading access provider with 15.2 million registered customers, of which about 3.1 million active customers (customers who used the service at least one in the previous month), against 3.4 million active customers at December 31, 2003.

Revenues from fixed telephony and Internet services in Italy amount in the 1st Quarter of 2004 to euro 373 million, as compared with euro 417 million in the same period in 2003, down about 10% due to general market conditions and strong competition.

The development of *infrastructure (networks and information systems)* continued in the 1st Quarter of 2004. At the end of the Quarter, the coverage of the radio mobile signal reached 98.6% of the population, both for the GSM and GPRS service, while fixed-line and Internet services had a coverage of 100% of the population in the indirect access mode (Carrier Selection and Carrier Pre-selection).

**Operating performance** *Revenues* increase by 3%, from euro 1,044 million in the 1st Quarter of 2003 to euro 1,075 million in the current period (up euro 31 million). Revenues for the mobile telephone segment grew by euro 68 million (up 13.7%) while revenues generated in Greece by subsidiary Tellas grow by euro 25 million. These increases were partly offset by the euro 44 million decline in revenues from fixed telephony and Internet services in Italy. Revenues in the 1st Quarter of 2003 were positively affected by a non-recurrent gross income of euro 32 million due to the assessment in March 2003 of telephone interconnection charges for 2002 on the part of the Authority for Telecommunications (AT).

*Gross operating margin* amounts to euro 285 million, improving by euro 55 million (up 23.9%) on the 1st Quarter of 2003, benefiting from the mentioned increase in revenues coupled with a reduction in operating costs (down 2.9%) as a result of cost containment actions. Interconnection and roaming costs continue to decline as a percentage of revenues from 33.0% in the 1st Quarter of 2003 to 30.8% in the current period.

*Operating income before amortization of goodwill* improves by euro 19 million, from negative euro 57 million in the 1st Quarter of 2003, to negative euro 38 million in the first three months of 2004. The improvement is lower than that of the gross operating margin as a result of higher depreciation, amortization and accruals, up euro 36 million, of which euro 32 million relating to the amortization expense on the recently acquired UMTS license, not recorded in the 1st Quarter of 2003.

*Operating income*, net of euro 139 million of goodwill amortization, amounts to a loss of euro 177 million, declining by euro 9 million on the 1st Quarter of 2003. Higher amortization of goodwill, up euro 28 million, is due to the recording on July 1, 2003 of euro 1,411 million relating to goodwill on the acquisition of the 26.6% share in Wind from France Telecom.

## Parent Company and Other activities

### Parent Company and Other activities

| In millions of euro                  | 1st Quarter |                      |        |        |
|--------------------------------------|-------------|----------------------|--------|--------|
|                                      | 2004        | 2003                 | Change |        |
| <b>Parent Company</b>                |             |                      |        |        |
| Revenues                             | 240         | 263                  | (23)   | -8.7%  |
| Gross operating margin               | 58          | 56                   | 2      | 3.6%   |
| Operating income                     | 52          | 50                   | 2      | 4.0%   |
| Employees at period-end (no.)        | 541         | 522                  | 19     | 3.6%   |
| <b>Services and Other activities</b> |             |                      |        |        |
| Revenues                             | 481         | 555                  | (74)   | -13.3% |
| Gross operating margin               | 72          | 136                  | (64)   | -47.1% |
| Operating income                     | 24          | 73                   | (49)   | -67.1% |
| Net capital employed                 | 1,911       | 2,220 <sup>(1)</sup> | (309)  | -13.9% |
| Employees at period-end (no.)        | 4,115       | 4,206 <sup>(1)</sup> | (91)   | -2.2%  |
| Capital expenditure                  | 18          | 26 <sup>(2)</sup>    | (8)    | -30.8% |

(1) At December 31, 2003.

(2) Euro 62 million relating to Brazilian transmission lines were reallocated to "Transmission networks" area.

### Parent Company

As an industrial holding company, Enel defines strategic targets for the Group and coordinates activities of subsidiaries. In addition, Enel manages treasury operations and insurance risk coverage, providing assistance and guidelines on organizational, industrial relations, accounting, administrative, tax and legal issues.

Due to contractual obligations, the Parent Company temporarily retains title to long-term electricity import contracts. Imported electricity is sold to Enel Distribuzione.

In the 1st Quarter of 2004 *revenues* amount to euro 240 million, declining by euro 23 million on the 1st Quarter of 2003 due primarily to the reduction in electricity volumes imported and subsequently sold to Enel Distribuzione.

*Gross operating margin* and *operating income* amount respectively to euro 58 million and euro 52 million, and are in line with those reported in the 1st Quarter of 2003 (euro 56 million and euro 50 million respectively).

## Services and Other activities

The “Services and Other activities” Division provides competitive services to Enel Divisions and offers them on the market. The Division includes the Real Estate and Facility Management, Engineering and Contracting, Information Technologies and Water activities, in addition to Personnel Training and Administration, Factoring and Insurance services. Until December 31, 2003 it included also very-high voltage electricity transmission activities in Brazil, carried out by subsidiaries Novatrans and TSN, in addition to the ownership and management of the optic fiber telecommunications network controlled by Enel.Net and used by Wind. At the end of 2003, Brazilian subsidiaries were sold by Enelpower to Terna, while Enel.Net was contributed to Wind in the 1st Quarter of 2004 and was consolidated in the latter's accounts from January 1, 2004.

Considered as a whole, activities of various nature of the Enel Group reported in the 1st Quarter of 2004 *revenues* amounting to euro 481 million, down euro 74 million (a 13.3% decline) on the same period in 2003 (in which they amounted to euro 555 million). The mentioned change in the scope of operations determined a reduction of about euro 20 million. Lower activity in the Real Estate and Facility Management sector and the review of information technology prices of captive operations represent other significant components.

*Gross operating margin* amounts in the 1st Quarter of 2004 to euro 72 million, down euro 64 million on the 1st Quarter of 2003 (in which it amounted to euro 136 million) due primarily to the following:

- > a euro 21 million decline in Engineering and Contracting captive activities;
- > a euro 18 million decline registered by Information Technology due to the mentioned review of fees applied to Group companies;
- > a euro 14 million decline registered by the Real Estate and Facility Management sector due to lower activity;
- > a euro 11 million decline resulting from the mentioned reduction in the scope of activity.

In the 1st Quarter of 2004, *operating income* amounts to euro 24 million, down euro 49 million, reporting lower depreciation charges in the Real Estate and Information Technology sector with respect to the gross operating margin.



Design

AReA - Rome

Publishing service

IMAGE DESIGN - Rome

Copy editing

postScriptum - Rome

Photo

**F A B R I C A**

Printed by

Varigrafica Alto Lazio - Nepi (Viterbo)

Printed in July 2004 on re-cycled

Fedrigoni Symbol Freelifa paper



500 copies printed

Publication not for sale

Edited by the Communication Department

Enel

Società per azioni

Registered office in Rome

137, Viale Regina Margherita

Capital Stock

Euro 6,063,075,189

fully paid-in

Tax I.D. and Companies' Register

of Rome no. 00811720580

R.E.A. of Rome no. 756032

VAT Code no. 00934061003



