


Report on the 1st Quarter of 2007



 **Enel**
ENERGY IN TUNE WITH YOU.

Report on the 1st Quarter of

2007

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The Enel structure

Corporate Enel SpA

Domestic Sales Division	Domestic Generation and Energy Management Division	Domestic Infrastructure and Networks Division
<ul style="list-style-type: none">> Enel Distribuzione> Enel Energia (formerly Enel Gas)> Enel.si> Deval	<ul style="list-style-type: none">> Enel Produzione> Enel Trade	<ul style="list-style-type: none">> Enel Distribuzione> Enel Rete Gas> Enel Sole> Deval
International Division		Services and Other Activities
<ul style="list-style-type: none">> Enel Viesgo Generación> Slovenské elektrárne> Enel Maritza East 3 (formerly Maritza East III Power Company)> Enel Operations Bulgaria (formerly Maritza East 3 Operating Company)> Enel North America> Enel Latin America> Enel Panama> Enel Fortuna	<ul style="list-style-type: none">> Enel France> Enel Viesgo Energía> Enel Electrica Banat> Enel Electrica Dobrogea> Electra de Viesgo Distribución> Enel Servicii> Enel Viesgo Servicios> Enel Unión Fenosa Renovables> RusEnergosbyt> Erelis	<ul style="list-style-type: none">> Enel Servizi> Sfera> Dalmazia Trieste> Enelpower> Enel.NewHydro> Enel.Factor> Enel.Re

Foreword

The consolidated report on the 1st Quarter of 2007 has been prepared in compliance with the IFRS-EU and with Consob Regulation no. 11971/1999 and subsequent amendments.

The recognition and measurement criteria adopted in the consolidated financial statements at March 31, 2007, which have not been audited, are consistent with those used to prepare the consolidated financial statements at December 31, 2006 and the consolidated financial statements at March 31, 2006.

Summary of results

Highlights

	1st Quarter	
	2007	2006
Income data (millions of euro)		
Revenues	9,728	10,251
Gross operating margin	2,332	2,107
Operating income	1,709	1,583
Net income before minority interests	987	875
Group net income	943	842
Financial data (millions of euro)		
Net capital employed	35,515	30,715 ⁽¹⁾
Net financial debt	14,994	11,690 ⁽¹⁾
Shareholders' equity (including minority interests)	20,521	19,025 ⁽¹⁾
Cash flow from operations	1,871	1,888
Capital expenditure on tangible and intangible assets	698	500
Per share data (euro)		
Group net income per share	0.15	0.14
Group shareholders' equity per share in circulation at period-end	3.21	2.99 ⁽¹⁾
Operating data		
Electricity sold by Enel (TWh) ⁽²⁾	43.1	40.0
Electricity transported on the Enel distribution network (TWh) ⁽²⁾	66.1	67.8
Gas sales (billions of cubic meters)	2.0	2.7
> of which to end-users (billions of cubic meters)	1.8	2.1
Net electricity generated by Enel (TWh)	31.6	32.0
Employees at year-end (no.)	58,098	58,548 ⁽¹⁾
Market indicators		
Average Brent oil price (\$/bbl)	57.8	61.8
Average price of low-sulfur fuel oil (\$/t) ⁽³⁾	266.9	337.4
Average price of coal (\$/t fob) ⁽⁴⁾	49.2	47.2
Average dollar/euro exchange rate	1.311	1.202
Six-month Euribor rate (average for the year)	3.94%	2.75%

(1) At December 31, 2006.

(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.

In the 1st Quarter of 2007 *revenues* totaled €9,728 million, down 5.1% with respect to the same period of 2006. Specifically, the increase in revenues posted by the International Division was more than offset by decreases at the Domestic Generation and Energy Management Division and the Domestic Sales Division.

The *gross operating margin* amounted to €2,332 million compared with €2,107 million in the 1st Quarter of 2006, an increase of €225 million or 10.7%, which was largely attributable to the growth of the International Division and general increase in margins for the other Divisions, also reflecting the positive impact of commodity risk management.

Operating income totaled €1,709 million in the 1st Quarter of 2007, up €126 million or 8.0%.

Group net income amounted to €943 million, compared with €842 million in the 1st Quarter of the previous year (up 12.0%).

Net financial debt came to €14,994 million at March 31, 2007, an increase of €3,304 million with respect to December 31, 2006, mainly as a result of the acquisition of 9.99% of Endesa, partially offset by operating cash flow. The ratio of debt to equity at March 31, 2007 was 0.73, compared with 0.61 at the end of 2006.

Group employees at March 31, 2007 numbered 58,098, a decrease of 450 on the 58,548 at end-2006. The decline is mainly attributable to the negative balance of 586 between new hires and terminations.

Regulatory and rate issues

The “Bersani” bill

At the end of the 1st Half of 2006 the Council of Ministers approved the text of a bill containing measures for the completion of the liberalization of the electricity and gas market and to boost energy savings and the use of renewable energy resources. As regards the regulations governing derivatives connected with physical markets for electricity and gas, which are contained in the bill currently being examined at the Senate, the 2006 Community Law (Law 13 of February 6, 2007) amended the Consolidated Law on Financial Intermediation (Legislative Decree 58 of February 24, 1998), establishing an exception (for energy derivatives only) to the restriction of trading on regulated markets to banks and securities investment firms. This will allow electricity companies to participate in electricity derivative trading platforms.

General costs of the electricity system

With a decree of March 7, 2007 the Minister for Economic Development and the Minister for the Economy and Finance amended the interministerial decree of June 22, 2005 that established procedures for reimbursement of non-recoverable costs in the electricity sector (stranded costs), reducing the interest due on stranded cost items accrued but not yet reimbursed to 3-month Euribor (the 2005 decree had envisaged a spread of 25 basis points on that rate). The amendment, which entered into force on April 3, 2007, was decided in part in the light of the Authority's Resolution no. 132/06, which provided for more rapid payment of the stranded costs. At March 31, 2007, Enel had received a total of €1,296 million and had an accrued receivable of about €285 million. Compared with the amounts established by the Authority, Enel also has a residual right of about €410 million for the period 2007-2009.

Long-term electricity import contracts

Enel has two contracts for the import of electricity, one with EdF (on the French border, terminating on December 31, 2007) and the other with Atel (on the Swiss

border, terminating on December 31, 2011). The power imported under these contracts is sold to the Single Buyer at a set price and is used to supply the regulated market.

For 2007, with a decree of December 15, 2006, the Minister for Economic Development decided:

- > to maintain the sale price to the Single Buyer at €66/MWh in 2007, also providing for the possible indexing of that value to wholesale electricity prices in Italy using a mechanism to be established in accordance with criteria defined by the Authority. With Resolution no. 82/07, the Authority established the procedure for the quarterly adjustment of the price, which has been set at €66.28/MWh for the 2nd Quarter of 2007;
- > to maintain retained the capacity reserve on the Swiss border with regard to the contract with Atel, with the joint agreement of Italian and Swiss authorities.
- > to not maintain the import capacity reserve for the long-term contract with EdF. Accordingly, in 2007 the electricity under the contract will mainly be sold by Enel in foreign markets.

Enel's appeal to the French Administrative Court against the decision of the French regulator (CRE) of December 2005 that it would not reserve any import capacity for the performance of the contract between Enel and EdF for 2006 was denied by the French Council of State in its ruling no. 289687 of March 30, 2007.

Significant events in the 1st Quarter of 2007

Agreements for the construction of wind plants in the United States and Canada

On January 5, 2007 Enel, acting through its subsidiary Enel North America, signed a series of agreements for the construction of two wind plants in the United States and Canada and for the supply of the electricity generated by the plants, which will have a maximum capacity of 250 MW and 27 MW respectively.

The Smoky Hills project, in Kansas (USA), will be built in a number of stages, with the first stage of 100.8 MW scheduled to come on line by the end of 2007.

NeWind, a wholly-owned subsidiary of Enel North America operating in Canada, signed a contract for the supply of electricity to Newfoundland and Labrador Hydro through the construction and operation of the 27 MW St. Lawrence wind project, which will generate about 100,000 MWh a year. It is scheduled to begin operations by the end of 2008.

Increase in stake in Fortuna

On February 2, 2007 Enel, acting through its Dutch subsidiary, Enel Investment Holding, acquired the entire share capital of the Panamanian company Globeleq Holdings Fortuna (now Enel Fortuna, a Panamanian-registered company) from Globeleq, which operates in the electricity sector in emerging markets. Thanks to this transaction, Enel, which is responsible for the operational management of the "Fortuna" hydroelectric plant, has increased its indirect holding in the Panamanian hydroelectric generation company from 24.5% to 49%, enabling it to exercise full operational control of Fortuna. Enel Investment Holding paid \$161.3 million for the stake, equal to about €124.5 million at the exchange rate prevailing on the transaction date.

Acquisition of Endesa shares and agreement with Acciona

On February 27, 2007 Enel, acting through its subsidiary Enel Energy Europe (EEE), purchased 105,800,000 shares of Endesa SA (Endesa), Spain's leading electricity generator, equal to 9.99% of that company's share capital, at a price of €39 per

share for a total of €4,126.2 million. The Endesa shares, acquired through an off-market transaction with institutional investors, were financed with cash flow and existing lines of credit, without any involvement of other Endesa shareholders. Subsequently, in three transactions carried out on March 1, 2 and 12, 2007, EEE entered into share swap agreements with UBS Limited and Mediobanca in which the underlying is represented by a maximum of 158,601,597 shares of Endesa (14.99% of the share capital). The contracts envisage the establishment of a margin account equal to 25% of the value of the shares, which is periodically adjusted in relation to movements in the Endesa share price. The agreement envisages cash settlement, with an option for EEE to request physical settlement in Endesa shares subject, among other requirements, to obtaining the necessary administrative authorizations from Spanish authorities to carry out the acquisition.

On the same date, Enel, in addition to requesting from the relevant bodies of the Spanish Ministry for Industry, Tourism and Trade authorization to exercise the rights in respect of the entire shareholding owned in Endesa, also asked the Comisión Nacional de la Energía (the Spanish National Energy Commission - CNE):

- > to authorize the acquisition of Endesa shares amounting to more than 10% of that company's share capital up to the threshold (currently set at 24.99% of the share capital) beyond which it is obligatory to launch a public tender offer;
- > to remove any restrictions on Enel's exercise of its rights as a shareholder of Endesa with regard to the qualification of the latter as a "principal operator" in the Spanish electricity sector. The restrictions regard the Enel's existing equity investment in the companies of the Viesgo Group, which at the date of the transaction was also classified as a principal operator.

Subsequently, on March 26, 2007, Enel signed an agreement with Acciona, one of the leading Spanish groups operating at the international level in the development and operation of infrastructure, services and energy from renewables, for the joint management of Endesa, which thanks to synergies and the exchange of experience will contribute to the future growth of the Spanish electricity company. The agreement is subject to the condition that E.On does not acquire more than 50% of Endesa. At March 31, 2007, Enel therefore owns, through EEE, 9.99% of Endesa and has entered into derivative contracts in which the underlying is represented by an additional 14.99% of that company.

Memorandum of Understanding with RosAtom

On March 14, 2007, Enel and the Federal Atomic Energy Agency of the Russian Federation (RosAtom) signed a Memorandum of Understanding for the development of the electricity system and nuclear generation in Russia and Central and Eastern Europe.

With the agreement, RosAtom and Enel have expressed their intention to develop

a cooperative relationship involving joint investment projects and stakes in the assets related to:

- > the construction of new nuclear power plants;
- > the operation and upgrading of electricity transport networks;
- > the operation of existing nuclear power plants.

Acquisition of AMP Resources

On March 19, 2007, Enel, acting through its subsidiary Enel North America, acquired AMP Resources LLC (AMP) from AMP Capital Partners and another minority investor. The acquisition includes one operational geothermal project and four projects at an advanced development stage for a total capacity of about 150 MW that Enel North America will complete over the next four years.

The projects, located in Nevada, California and Utah, should generate sufficient renewable power to meet the annual electricity demand of about 100,000 US households once they are fully operational.

Partnership with Duferco

On March 21, 2007 Enel signed a partnership agreement with Duferco, one of Europe's leading steel groups and the top manufacturer of steel and semifinished steel products in Wallonia (Belgium).

The partnership will start with the development of a project to build a combined-cycle gas plant with a net capacity of about 420 MW and a power plant that reuses gases produced in the steel manufacturing process with a capacity of about 65 MW at the Marcinelle-Marchienne industrial site. In addition to covering the Duferco Group's energy needs in Belgium, the power plants will provide new generation capacity for the entire market. To this end, the two partners also plan to establish an electricity sales operation, as well as to develop additional opportunities in other projects in the region.

Archimede Project with ENEA

On March 26, 2007 Enel signed a protocol of understanding with Italy's National Agency for New Technologies, Energy and the Environment (ENEA) on the operational implementation of the Archimede Project. The initiative involves the construction of a solar plant at Enel's Priolo Gargallo power station (Siracusa). It will be the world's first integration of a gas combined-cycle power station with a thermodynamic solar plant, which will boost the station's capacity by about 5 MW. The investment will total more than €40 million, with the facility expected to enter service by the end of 2009.

Subsequent events and outlook

Subsequent events

Agreement between Enel, Acciona and E.On and subsequent public tender for Endesa

On April 2, 2007 Enel and Acciona signed an agreement with E.On under which the latter agrees to withdraw its tender offer for Endesa, and Enel and Acciona agree to transfer to E.On a number of assets owned by Endesa and Enel, subject to acquiring effective control of Endesa through a tender offer, in line with the agreement of March 26, 2007.

The assets will be transferred to E.On once Acciona and Enel have control of Endesa, the transaction is approved by the corporate bodies of Endesa and it has received the necessary administrative authorizations.

On April 11, 2007, following the announcement of the failure of the E.On public tender for Endesa, Enel (acting through its subsidiary Enel Energy Europe) and Acciona presented Spain's Comisión Nacional del Mercado de Valores (CNMV) a joint offer for 100% of Endesa shares.

The main terms of the offer are as follows:

- > the price offered to Endesa shareholders is €41.30 per share, entirely in cash, equal to the price of €41 per Endesa share announced by the offerors on March 26, 2007, increased by interest of 3-month Euribor for the period from March 26, 2007 to May 31, 2007 (rounded up). The offer price will be reduced by the amount of any dividends (including any extraordinary dividends or similar payments) that should be distributed by Endesa between the date of the submission of the tender and the date of publication of the results of the tender (both dates are included for the purposes of any adjustment);
- > the effectiveness of the tender is subject to the complete satisfaction of the following conditions, which may however be waived:
 - the tender offer is accepted by shareholders representing a percentage of Endesa share capital that, together with the shares already held directly and indirectly by the offerors, exceeds 50%;

- that before the end of the tender acceptance period: (a) the shareholders' meeting of Endesa approves amendments to a number of articles of the bylaws that restrict shareholder voting rights and removes any other impediment to control of the company with regard to the membership of the board of directors; (b) all resolutions in this regard have been entered in the "Registro Mercantil" of Madrid;
- > the offerors notify the concentration resulting from the tender to the European Commission in accordance with the provisions of regulations governing the control of concentrations between undertakings (Regulation no. 139 of January 20, 2004) and to the antitrust authorities of any other country involved;
- > the tender is subject to receipt of a series of administrative authorizations. To this end, the offerors will make all necessary notifications to the Comisión Nacional de Energía and the Secretaría General de Energía of the Spanish Ministry for Industry, Tourism and Trade, as well as to the administrative and regulatory authorities of any other country involved;
- > in view of the fact that Endesa shares are listed on the New York Stock Exchange (in the form of American Depositary Shares) and are also listed on the offshore exchange (Registro de Valores Extranjeros) of Santiago in Chile, the offerors must perform all necessary formalities for the presentation or extension of the tender to these jurisdictions.

On April 25, following the exclusion of the Viesgo Group companies from the category of principal operators in the Spanish electricity market, the restrictions on Enel's rights as a shareholder of Endesa were removed.

On April 26, the CNE therefore authorized Enel to increase its holding in Endesa up to 24.99%.

On April 27, the Spanish government authorized the exercise of the shareholder rights in respect of the equity investment in Endesa.

On May 3, Enel and Acciona asked the CNE to authorize the acquisition of Endesa shares, which will be contributed to the tender offer. Enel and Acciona also asked the CNE to authorize the application of the provisions of the agreement between the two companies concerning the joint control of Endesa.

In order to meet the financial commitments of the above transaction, on April 9 the Board of Directors of Enel SpA also voted to obtain a syndicated line of credit totaling €35 billion. The facility, whose amount is sufficient to fully meet the obligations in respect of the acquisition of Endesa shares, is structured in three tranches with the following characteristics: tranche A of €10 billion maturing at 1 year, with an option to extend the maturity for a further 18 months; tranche B of €15 billion at 3 years; tranche C of €10 billion at 5 years. The interest rate will vary in relation to Enel's rating. The line of credit may be repaid early in full or in part without penalty.

For the purposes of financing the transaction as well as restructuring the Group's debt, the Board of Directors also approved:

- > the renewal of the program for the issue of medium-term notes, raising the amount from €10 to €25 billion;
- > the issue by Enel, as part of the above program, of one or more bonds in euro or foreign currency to be placed with institutional investors by December 31, 2007, in the total amount of €5 billion.

Acquisition of Yukos assets in joint venture with Eni

On April 4, 2007 Enel, acting through the Enineftgaz Consortium (in which Enel has a stake of 40% and Eni 60%), won the tender for the acquisition from Yukos of a set of gas assets, with an offer of about \$5.83 billion. The amount that Enel has undertaken to pay at the end of the tender is equal to \$852 million.

The main assets are:

- > 100% of OAO Arcticgaz;
- > 100% of ZAO Urengoil;
- > 100% of OAO Neftegaztehnologiya;
- > 20% of OAO Gazprom Neft (which will be entirely transferred to Eni).

Arcticgaz, Urengoil and Neftegaztehnologiya have hydrocarbon exploration and production licenses for the region of Yamal Nenets, the largest gas production area in the world. These companies have total reserves of gas and oil equal to about 5 billion barrels of oil equivalent.

The acquisition marks Enel's entry into the important upstream segment of the natural gas market and lays the foundations for Enel to operate as a vertically integrated player in that sector.

Outlook

The recent developments in the operation to acquire Endesa, notably the launch of the joint tender with Acciona for 100% of the shares of Spain's leading electricity company, strengthen our international growth strategy. Action to integrate and develop assets already acquired will also continue. In the domestic market, Enel is continuing to consolidate its position, offering targeted service plans for retail customers (those with consumption of less than 200,000 cubic meters per year) in view of the complete liberalization of the electricity market in Italy.

The expansion of international operations and the new efficiency programs undertaken (the Zenith Project), together with planned investment in the various sectors, will have a positive impact on operating results for 2007 as a whole, improving even further on the previous year.

Operating review

Electricity generation and demand

Domestic electricity flows Source: Terna - Rete Elettrica Nazionale (monthly report - March 2007).

Millions of kWh	1st Quarter			
	2007	2006	Change	
Gross electricity generation:				
> thermal	66,252	72,887	(6,635)	-9.1%
> hydroelectric	8,439	9,575	(1,136)	-11.9%
> geothermal and other resources	2,465	2,456	9	0.4%
Total gross electricity generation	77,156	84,918	(7,762)	-9.1%
Auxiliary services consumption	(3,141)	(3,549)	408	11.5%
Net electricity generation	74,015	81,369	(7,354)	-9.0%
Net electricity imports	13,095	7,409	5,686	76.7%
Electricity delivered to the network	87,110	88,778	(1,668)	-1.9%
Consumption for pumping	(1,988)	(2,243)	255	11.4%
Electricity demand	85,122	86,535	(1,413)	-1.6%

- > *Domestic electricity demand* in the 1st Quarter of 2007 decreased by 1.6% with respect to the corresponding period of 2006, reaching 85.1 billion kWh at March 31, 2007. Of this total, 84.6% was met by net domestic electricity generation for consumption (91.4% in the 1st Quarter of 2006), with the remaining 15.4% being met by net electricity imports (8.6% in the 1st Quarter of 2006);
- > *net electricity imports* in the 1st Quarter of 2007 increased by 5.7 billion kWh, essentially owing to the decline in electricity prices in other European countries from their high levels in the 1st Quarter of 2006, which had prompted electricity companies to reduce imports;
- > as a result of higher imports and the decrease in demand for electricity, *gross electricity generation* declined by 9.1% in the 1st Quarter of the year. The period saw a decrease in thermal generation (down 6.6 billion kWh) and hydroelectric generation (down 1.1 billion kWh).

Enel generation and sales

Enel generation and sales (domestic)

Millions of kWh	1st Quarter			
	2007	2006	Change	
Net electricity generation	22,334	28,629	(6,295)	-22.0%
Electricity purchases	40,187	41,331	(1,144)	-2.8%
Sales to wholesalers ⁽¹⁾	22,029	26,776	(4,747)	-17.7%
Sales on the regulated market ⁽²⁾	27,093	32,634	(5,541)	-17.0%
Sales on the free market ⁽²⁾	8,291	4,853	3,438	70.8%
Electricity transported on Enel's distribution network	62,864	64,564	(1,700)	-2.6%

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

(2) Excluding sales to resellers.

- > Enel's *net domestic electricity generation* fell by 22.0% in the 1st Quarter of 2007. This decrease in production is related to thermal generation (down 5.5 billion kWh) and hydroelectric generation (down 0.8 billion kWh);
- > *electricity purchases* fell by 2.8% the 1st Quarter. This decrease is related to lower sales on the regulated market;
- > *sales to wholesalers* fell by 17.7% the 1st Quarter. The decrease is substantially attributable to the decrease in volumes sold on the Power Exchange and to the Single Buyer (for a total decrease of about 3.0 billion kWh).

As for overall sales to the final consumer, Enel's market share in the first three months of 2007 came to 44.4% (about 46.3% in the corresponding period of 2006). In particular:

- > *sales on the regulated market* excluding sales to resellers fell by 17.0% in the 1st Quarter, due to the impact of greater market liberalization, which, however, also gave rise to an increase of 70.8% in *sales on the free market*, and to the disposal of the distribution and sales network of the Province of Modena at the end of June 2006;
- > *electricity transported on Enel's distribution network* decreased by 2.6% in the first three months of the year, essentially reflecting developments in domestic demand for electricity.

Enel generation and sales (international)

Millions of kWh	1st Quarter			
	2006	2005	Change	
Net electricity generation	9,277	3,362	5,915	-
Electricity sold to end-users ⁽¹⁾	7,746	2,540	5,206	-
Electricity transported on Enel's distribution network	3,187	3,233	(46)	-1.4%

(1) Excluding sales to resellers.

- > Enel's *net electricity generation* abroad in the 1st Quarter of 2007 came to 9.3 billion kWh, an increase of 5.9 billion kWh (of which 4.1 billion kWh from nuclear plants and 1.7 billion kWh from hydro facilities), mainly attributable to the change in the scope of consolidation as a result of the acquisitions carried out as from the 2nd Quarter of 2006;
- > *electricity sales* in the 1st Quarter of 2007 increased by 5.2 billion kWh, mainly thanks to the contribution of the Russian energy trading company RusEnergosbyt, which has been consolidated since the end of June 2006;
- > *energy transported* in the 1st Quarter of 2007 came to 3.2 billion kWh, broadly in line with the figure for the previous year.

Changes in the scope of consolidation

The scope of consolidation changed with respect to the 1st Quarter of 2006 as a result of the following main transactions:

- > sale of 30% of Enel Unión Fenosa Renovables on May 30, 2006. Following this sale, the interest in the company fell to 50%, with the Group exercising joint control over the company together with the other shareholders. As a result, the company is being consolidated on a proportionate basis as of that date;
- > acquisition of a 66% interest in Slovenské elektrárne, a Slovakian generation company, on April 28, 2006;
- > acquisition of the remaining 40% interest in Maritza East III Power Holding on June 14, 2006. Following this transaction, the Group now holds a 73% stake in Enel Maritza East 3 (formerly Maritza East III Power Company), a Bulgarian generation company;
- > acquisition, on June 14, 2006, of a 100% interest in Maritza O&M Holding Netherlands, a holding company that owns 73% of Enel Operations Bulgaria (formerly Maritza East 3 Operating Company), which is responsible for the maintenance of the Maritza East III plant;
- > acquisition, on June 21, 2006, of a 49.5% interest in Res Holdings, which holds a 100% stake in the Russian firm RusEnergosbyt (energy trading and sales). Enel now exercises joint control over the company together with the other shareholders. As a result, the company is consolidated on a proportionate basis;

- > acquisition, on July 13, 2006, of a 100% stake in Erelis, a company that develops wind plants in France;
- > acquisition, on August 1, 2006, of a 100% stake in Hydro Quebec Latin America (now Enel Panama), which, together with Globeleq (a private equity fund), exercises joint control over the Panamanian hydro generation company, which is consolidated on a proportionate basis. On February 2, 2007, with the acquisition from Globeleq of the entire capital of the Panamanian company Globeleq Holdings Fortuna (now Enel Fortuna), Enel acquired indirect control of Fortuna. Accordingly, as from that date the latter is fully consolidated;
- > acquisition, on October 6, 2006, through Enel Brasil Participações, a subsidiary of Enel Latin America, of 100% of 10 companies of the Rede Group that own 20 mini-hydro plants.

The balance sheet effects of the consolidation changes do not affect the comparability of the figures for the two periods. The main effects are shown in the comments on results by Division.

Results by Division

The results presented in this report take account of the organizational structure operational since January 1, 2006, which includes the Domestic Sales Division, the Domestic Generation and Energy Management Division, the Domestic Infrastructure and Networks Division and the International Division. All of these Divisions, together with the Parent Company and Services and Other Activities areas, were considered by management in assessing Group performance.

For the purposes of providing comparable figures, it should be noted that following the transfer of the "large electricity users" unit (customers with annual consumption of more than 100 million kWh) from Enel Trade to Enel Energia, effective as from April 1, 2006, the 1st Quarter 2006 figures for the unit were reallocated from the Domestic Generation and Energy Management Division to the Domestic Sales Division.

Results by Division for the 1st Quarter of 2007 and 2006

Segment information - 1st Quarter 2007 ⁽¹⁾

Millions of euro	Domestic Sales	Domestic Generat. and Energy Managem.	Domestic Infrastruc. and Networks	Internat.	Parent Company	Services and Other Activities	Eliminat. and adjustments	Total
Revenues from third parties	5,603	2,788	200	1,041	158	55	(117)	9,728
Revenues from other segments	12	1,235	1,183	18	52	217	(2,717)	-
Total revenues	5,615	4,023	1,383	1,059	210	272	(2,834)	9,728
Net income/(charges) from commodity risk management	(51)	49	-	2	-	-	-	-
Gross operating margin	68	985	905	317	(11)	64	4	2,332
Depreciation, amortization and impairment losses	35	231	208	124	4	21	-	623
Operating income	33	754	697	193	(15)	43	4	1,709
Net financial income/(expense) and income/(expense) from equity investments accounted for using the equity method	-	-	-	-	-	-	-	(125)
Income taxes	-	-	-	-	-	-	-	597
Net income (Group and minority interests)	-	-	-	-	-	-	-	987
Operating assets	7,291	16,697	16,892	10,564	1,069	1,601	(3,498)	50,616
Operating liabilities	6,942	3,889	3,745	4,075	1,136	1,176	(2,854)	18,109
Capital expenditure	4	223	315	144	1	11	-	698

Segment information - 1st Quarter 2006 ⁽¹⁾

Millions of euro	Domestic Sales	Domestic Generat. and Energy Managem.	Domestic Infrastruc. and Networks	Internat.	Parent Company	Services and Other Activities	Eliminat. and adjustments	Total
Revenues from third parties	5,866	3,522	181	607	249	43	(217)	10,251
Revenues from other segments	23	1,014	1,194	-	55	193	(2,479)	-
Total revenues	5,889	4,536	1,375	607	304	236	(2,696)	10,251
Net income/(charges) from commodity risk management	(8)	(172)	-	-	3	-	-	(177)
Gross operating margin	43	928	846	176	68	40	6	2,107
Depreciation, amortization and impairment losses	25	233	194	49	3	20	-	524
Operating income	18	695	652	127	65	20	6	1,583
Net financial income/(expense) and income/(expense) from equity investments accounted for using the equity method	-	-	-	-	-	-	-	(131)
Income taxes	-	-	-	-	-	-	-	577
Net income (Group and minority interests)	-	-	-	-	-	-	-	875
Operating assets ⁽²⁾	6,948	16,752	16,875	10,008	1,013	1,771	(3,352)	50,015
Operating liabilities ⁽²⁾	6,272	4,019	4,042	4,037	1,275	1,128	(2,884)	17,889
Capital expenditure	9	151	288	37	-	15	-	500

(1) Segment revenues in the above tables include both revenues from third parties and revenue flows between the segments. An analogous approach was taken for other income and costs for the period.

(2) At December 31, 2006.

The following table reconciles segment assets and liabilities and the consolidated figures.

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006
Total assets	61,572	54,500
Financial assets, cash and cash equivalents	7,044	2,107
Tax assets	3,912	2,378
Segment assets	50,616	50,015
> of which:		
Domestic Sales	7,291	6,948
Domestic Generation and Energy Management	16,697	16,752
Domestic Infrastructure and Networks	16,892	16,875
International	10,564	10,008
Parent Company	1,069	1,013
Services and Other Activities	1,601	1,771
Eliminations and adjustments	(3,498)	(3,352)
Total liabilities	41,051	35,475
Loans and other financial liabilities	19,670	14,661
Tax liabilities	3,272	2,925
Segment liabilities	18,109	17,889
> of which:		
Domestic Sales	6,942	6,272
Domestic Generation and Energy Management	3,889	4,019
Domestic Infrastructure and Networks	3,745	4,042
International	4,075	4,037
Parent Company	1,136	1,275
Services and Other Activities	1,176	1,128
Eliminations and adjustments	(2,854)	(2,884)

Domestic Sales

The Domestic Sales Division is responsible for commercial activities, with the objective of creating an integrated package of electricity and gas products and services for end-users. The activities are carried out by:

- > Enel Distribuzione and Deval (the operations of the latter are limited to the Valle d'Aosta region) for the sale of electricity on the regulated market;
- > Enel Energia (formerly Enel Gas) for the sale of electricity on the free market and the sale of natural gas to end-users;
- > Enel.si, which is responsible for engineering and franchising.

Regulatory and rate issues

Electricity

Regulatory issues

In its decree of May 12, 2006, the Ministry of Communications established new rates for mailing correspondence. This will have an impact on Enel (notably for the mailing of utility bills to customers in the regulated market) of some €30 million per year. At the moment, such costs have not been recognized by the Authority in rates for end-users. Enel has taken steps to obtain such recognition.

Rates and rate updates

On December 5, 2006, with its Resolution no. 275/06, the Authority updated the rate component for the sale of electricity on the regulated market with an increase of 14% for 2007.

With Resolution no. 321/06 of December 28, 2006, the Authority updated electricity rates for the 1st Quarter of 2007 with a reduction in the national average of about €2/MWh, or 1.6% of the total, in line with the average purchase price reduction of the Single Buyer. In particular, the Authority reduced the component covering the cost of raw materials and ancillary services by 8.4% (down €8/MWh), while offsetting this reduction primarily with a sharp increase (up 250%) in the UC1 component covering procurement costs over past levels, which will make it possible to recoup past equalization imbalances by the end of 2007.

With Resolution no. 76/07 of March 29, 2007, the Authority updated electricity rates for the 2nd Quarter of 2007 with a reduction in the national average of about €1.2/MWh, or 0.9% of the total, in line with the average purchase price reduction of the Single Buyer. For residential-use customers, the reduction is €0.7/MWh, or 0.4% of the final rate. In particular, the Authority reduced the CCA component covering the cost of raw materials and ancillary services by an average of 1.2% (down €1.3/MWh), partially offsetting the reduction with a slight increase in the UC1 component covering prior-year deficits (equal to €0.1/MWh, up 1.9%).

[Inquiries and fact-finding investigations](#)

With Resolution no. 130/06, the Authority opened a formal inquiry into Enel Distribuzione's alleged failure to observe the provisions of Resolution no. 55/00 concerning invoice transparency. The violation underlying the Authority's measure concerns the absence, through February 2006, of indication on Enel's invoices as to the possibility of paying invoices free of charge. On March 21, 2007, with Resolution no. 66/07, the Authority fined Enel Distribuzione €11.7 million. Enel is preparing to appeal the decision to the Lombardy Regional Administrative Court. The appeal will be lodged by the end of May.

[Rules for the sale of CIP 6 electricity by the Electricity Services Operator \(ESO\)](#)

The decree of the Minister for Economic Development of December 14, 2006, confirmed for 2007 the sale of CIP 6 energy on the Power Exchange by the ESO and the pro rata assignment of such energy to those requesting it, using contracts for differences, based on average annual electricity consumption. The decree reduced the share going to the Single Buyer to 35%, while the strike price of the contracts for differences was set at €64/MWh for the 1st Quarter of 2007 and is adjusted during the year in the manner specified by the Authority in relation to developments in the price index referred to in Article 5 of the decree of the Minister for Productive Activities of December 19, 2003. The total quantity assigned for 2007 was 5,400 MW, of which 3,510 MW to the free market (639 MW to Enel) and 1,890 MW to the regulated market.

With Resolution no. 82/07, the Authority also established procedures for adjusting the price for the sale of CIP 6 energy on a quarterly basis. The price for the 2nd Quarter of 2007 was set at €59.94/MWh.

[Liberalization of electricity sales](#)

Directive 2003/54/EC establishes that all end-users may choose their own providers on the free market starting from July 1, 2007. The directive also requires Member States to define public service obligations to protect customers (especially for residential users). Until such time as the directive is implemented, which should occur with the approval of the Bersani bill, in August 2006 the Authority for Electricity and Gas published a document surveying the issues involved in the liberalization of the sale of electricity to all end-users, which is scheduled for July 1, 2007. The purpose of the document is to identify the critical issues concerning the complete liberalization of the market, as well as to define possible safeguards. Certain actions require primary legislation, which is beyond the Authority's powers.

The document defines both general mechanisms for safeguarding all users and specific mechanisms for certain categories of users. In particular, the Authority distinguishes between:

> a service safeguard mechanism covering all users – of an extraordinary, transitory

- nature – so as to ensure that end-users do not find themselves without a provider because, for whatever reason, they cannot find one (including the bankruptcy of their current provider);
- > an enhanced service safeguard mechanism (for residential users certainly, but also possibly for small businesses) in order to ensure service provision to those users who, even subsequent to July 1, 2007, have not made the transition to the free market.

On January 18, 2007, the Authority published a document containing recommendations concerning the reform of the rates system for low-voltage residential users in anticipation of the full liberalization of the market on July 1, 2007. The document also contains proposals concerning the safeguards for particularly vulnerable categories of user (underprivileged residential users or residential users with serious medical conditions) with the so-called “social rates”.

Gas

Rates and rate updates

In conjunction with the updating of the raw materials component of the supply prices of natural gas for the 3rd Quarter of 2006, the Authority altered the updating criteria set out in Resolution no. 248/04. The new Resolution no. 134/06 modifies certain parameters in the formula for updating the raw materials component for Brent levels above \$60/bbl, permitting remuneration for raw materials more in line with procurement costs.

Following the plenary session of November 13, 2006 of the Council of State, the Authority issued Resolution no. 79/07, defining the criteria for updating the raw materials component of the rate for 2005 and the 1st Half of 2006. The more favorable provisions of the earlier Resolution no. 195/02 were applied for 2005, while Resolution no. 248/04 was applied for the 1st Half of 2006. This resulted in the payment to the sales companies of an amount equal to 50% of the difference between the levels the rates would have reached had they been updated based on Resolution no. 195/02 and those they would have reached based on Resolution no. 248/04.

With Resolution no. 80/07, the Authority, using the methodology established in Resolution no. 134/06, updated the gas rates for the 2nd Quarter of 2007, providing for a 3.4% reduction in the raw materials component due to the drop in the average prices for oil products.

Inquiries and fact-finding investigations

With Resolution no. 131/06, the Authority opened a formal inquiry into Enel Gas (now Enel Energia) for alleged violation of Article 11.1 of the commercial code of

conduct, which establishes the minimum content of contracts. The violation regards the failure to indicate the timing of meter readings and the indemnities in certain types of contract. With Resolution no. 102/07, the Authority imposed a fine of €127 thousand.

Operating performance of the Domestic Sales Division

Millions of euro	1st Quarter		
	2006	2005	Change
Revenues	5,615	5,889	(274)
Net income/(charges) from commodity risk management	(51)	(8)	43
Gross operating margin	68	43	25
Operating income	33	18	15
Operating assets	7,291	6,948 ⁽¹⁾	343
Operating liabilities	6,942	6,272 ⁽¹⁾	670
Employees at period-end (no.)	5,147	5,176 ⁽¹⁾	(29)
Capital expenditure	4	9	(5)

(1) At December 31, 2006.

Electricity sales

Millions of kWh	1st Quarter			
	2007	2006	Change	
Sales on regulated market:				
> high-voltage	1,324	1,233	91	7.4%
> medium-voltage	2,638	4,438	(1,800)	-40.6%
> low-voltage	23,131	26,963	(3,832)	-14.2%
Total for regulated market	27,093	32,634	(5,541)	-17.0%
Sales on free market:				
> high-voltage	3,400	2,996	404	13.5%
> medium-voltage	2,727	1,411	1,316	93.3%
> low-voltage	2,164	446	1,718	-
Total for free market	8,291	4,853	3,438	70.8%
TOTAL	35,384	37,487	(2,103)	-5.6%

Electricity sold on the regulated market in the 1st Quarter of 2007 came to 27.1 billion kWh, a decrease of 5.5 billion kWh from the same period of the previous year due primarily to greater market liberalization, which led to an increase of 3.4 billion kWh in the volume of energy sold on the free market in the quarter, as well as lower demand for electricity during the period.

Gas sales and customers

Millions of kWh	1st Quarter		
	2007	2006	Change
Gas sold (millions of cubic meters):			
> Enel Group network	1,195	1,660	(465)
> third-party network	565	435	130
Total sales of gas	1,760	2,095	(335)
Customers at end of period (no.):			
> Enel Group network	1,984,816	1,938,245	46,571
> third-party network	362,174	267,175	94,999
Total customers	2,346,990	2,205,420	141,570

Gas sales for the 1st Quarter of 2007 totaled 1,760 million cubic meters, a decline of 335 million cubic meters from the same period of the previous year, primarily due to improved weather conditions.

At March 31, 2007, customers served numbered some 2.3 million, an increase of about 0.1 million over March 31, 2006, due to the increase in retail customers (those with consumption of less than 200,000 cubic meters per year).

Operating performance

Total **revenues** for the 1st Quarter of 2007 amounted to €5,615 billion, down €274 million or 4.7% over the same period of 2006, due mainly to the following factors:

- > a €683 million decrease in revenues from electricity sales on the regulated market, primarily due to the reduction in volumes sold (5.5 TWh) together with the lower sale price for electricity;
- > a €4 million decrease in revenues from natural gas sales mainly attributable to lower volumes sold, which more than offset the positive impact of Resolution no. 79/07 establishing the gas supply prices for 2005 and the 1st Half of 2006;
- > an increase of €439 million in revenues from the sale of electricity on the free market as a result of increased sales to small and medium-sized users.

The **gross operating margin** for the 1st Quarter of 2007 amounted to €68 million, increasing by €25 million over the same period of 2006. This increase is due to the following factors:

- > the €20 million increase in the margin on sales of natural gas to end-users, mainly attributable to Resolution no. 79/07, which more than offset the decrease in the gas margin (down €24 million) reflecting the reduction in volumes sold as a result of improved weather conditions in the 1st Quarter of 2007 compared with the same period of 2006;
- > the €13 million increase in the margin on sales of electricity on regulated markets largely due to the growth in the sales margin and the containment of other operating costs;

> the €8 million decrease in the margin on sales of electricity on the free market, mainly due to the change in the supply terms in the contracts with the Domestic Sales Division and the Domestic Generation and Energy Management Division.

Operating income for the 1st Quarter of 2007, after depreciation, amortization and impairment losses in the amount of €35 million (€25 million for the 1st Quarter of 2006), came to €33 million, increasing by €15 million from the same period of 2006. The increase in depreciation, amortization and impairment losses is mainly due to the increase in losses on trade receivables.

Capital expenditure

Capital expenditure amounted to €4 million, a €5 million decline compared with the same period of last year.

Domestic Generation and Energy Management

This Division operates in the field of electricity generation and energy products. The activities of the Domestic Generation and Energy Management Division are as follows:

- > the generation and sale of electricity:
 - electricity generation in Italy through Enel Produzione;
 - trading on international and domestic markets through Enel Trade;
- > the supply and sale of energy products through Enel Trade:
 - procurement of energy products for all Group;
 - the sale of natural gas to distributors;
- > engineering and construction through Enel Produzione.

Regulatory issues

Ancillary Services Market (ASM)

With Resolution no. 111/06, the Authority for Electricity and Gas revised the conditions for ancillary services. The resolution introduced the so-called "Accounts System", designed to foster the integrated management of the spot and forward markets, thereby enabling companies to adjust forward positions on the day-ahead market.

With Resolution no. 253/06 of November 16, 2006, the Authority amended Resolution no. 111/06 and postponed the launch of the Accounts System to April 1, 2007, from the originally scheduled January 1, 2007. Resolution no. 73/07 once again postponed the launch of the Accounts System to May 1, 2007, although companies may register starting April 1, 2007 and record transactions starting from that date with validity as of May 1, 2007.

With Resolution no. 314/06 of December 27, 2006, the Authority issued further modifications to the rules governing the day-ahead market beginning in 2007. The main changes concerned:

- > the possibility for Terna to use forward contracts for dispatching resources in 2007;
- > the extension to 2007 of the change introduced with Resolution no. 165/06 concerning the supplemental bids presented by Terna on the day-ahead market (allowing intervention in the event of divergences of 2% between the forecast needs of Terna and the total demand on the day-ahead market).

Single Buyer auctions

In May 2005, Enel exercised the long-term options provided by the contracts for differences for 2006 in order to extend their validity through December 31, 2007 for 5,550 MW.

Between November and December 2006, the Single Buyer held three more auctions

for contracts for differences in order to cover its needs for 2007. The capacity contracted out totaled 1,216 MW. Enel Produzione was awarded 700 MW through two-way contracts for differences.

Electricity imports

The rules for electricity imports for 2007 were established with a decree of the Minister for Economic Development on December 15, 2006, and by Authority Resolution no. 288/06. For 2007, rights to use transport capacity on the borders with France, Austria, and Greece are assigned through competitive procedures based on methods defined in the agreements between Terna and the system operators of the interconnected countries for the joint allocation of available capacity. The revenues from the auctions for each of the borders are to be distributed equally among the competent system operators.

Conversely, rights to use transport capacity on the borders with Switzerland (through July 1, 2007) and Slovenia will continue to be assigned separately by the respective system operators, with Terna holding auctions to allocate the rights to use its own portion of capacity (50%).

Up to 30% of Terna's share of the revenues from the assignment procedures are allocated to the Single Buyer, with the remainder going to customers on the free market on a pro rata basis based on capacity.

Temporary measures concerning the reduction of gas consumption

In order to avoid repeating the risk of system crisis for the 2006-2007 winter season, the Ministry for Economic Development introduced certain precautionary measures. The decrees of August 4, 2006 make it mandatory for shippers to:

- > maximize imports beginning on November 13, 2006;
- > hold a share of interruptible customers in their portfolios;
- > release unused import capacity.

The sanctions for failure to comply with these requirements are in line with the severe penalties for drawing on strategic stores without ministerial authorization. Based upon the high temperatures during the winter of 2006-2007 and low use of stores, on January 30, 2007 the Minister of Economic Development issued a decree abolishing the obligation to maximize imports.

Inquiries and fact-finding investigations

With regard to the inquiry opened by the Competition Authority on April 6, 2005, concerning Enel SpA and Enel Produzione for alleged competition-limiting conduct on the Power Exchange in 2004 and 2005, on October 17, 2006, exercising the option envisaged under Law 248/2006, Enel SpA and Enel Produzione notified the Competition Authority of commitments to take steps aimed at removing the

anti-competitive conduct found during the antitrust inquiry, so as to be able to close the inquiry without an adverse ruling or sanctions.

Enel SpA and Enel Produzione have committed to providing the market with a virtual power plant (VPP) in the form of two-way contracts for differences for a total of 1,000 MW for 2007 and 700 MW for 2008. The Competition Authority's resolution of December 20, 2006 closed the inquiry into abuse of dominant position without confirming the infraction.

The procedure for assigning the VPP for 2007 was concluded on December 29 with the allocation of all the capacity provided to the 25 companies selected.

With Resolution no. 283/06, the Authority for Electricity and Gas fined Enel Trade the amount of €24 million. The sanction was established upon conclusion of a formal investigation into various users of stores, including Enel Trade, for inappropriate use of space and peak modulation storage capacity granted for gas years 2004-2005 and 2005-2006. Enel Trade participated in the proceedings, submitting its own defense brief. On February 6, 2007, it paid the fine "without acknowledging any liability" for the portion relating to the 2004-2005 gas year. The new interpretation of prevailing legislation, in contrast with a longstanding practice justified by the technical characteristics of the system, forces companies to cope with stringent operating constraints and difficulties applying the legislation during the current year, as well. However, on February 23, 2007 the company filed an appeal of Resolution no. 283/06 with the Lombardy Regional Administrative Court. The hearing is set for June 19, 2007.

Emission Trading

At the end of March 2007, in determining the final calculation of CO₂ allowances for 2006 under the national allocation plan, Enel Produzione's deficit for 2006, which was found to be 1.5 million metric tons less than estimated, was fully covered by purchases of allowances made during 2006. With regard to the 1st Quarter of 2007, for which the allowance was 11.2 million metric tons, actual emissions were 11.3 million metric tons.

Operating performance of the Domestic Generation and Energy Management Division

Millions of euro	1st Quarter		
	2007	2006	Change
Revenues	4,023	4,536	(513)
Net income/(charges) from commodity risk management	49	(172)	221
Gross operating margin	985	928	57
Depreciation, amortization and impairment losses	231	233	(2)
Operating income	754	695	59
Operating assets	16,697	16,752 ⁽¹⁾	(55)
Operating liabilities	3,889	4,019 ⁽¹⁾	(130)
Employees at period-end (no.)	9,569	9,573 ⁽¹⁾	(4)
Capital expenditure	223	151	72

(1) At December 31, 2006.

Net electricity generation

Millions of kWh	1st Quarter		
	2007	2006	Change
Thermal	16,134	21,661	(5,527) -25.5%
Hydroelectric	4,747	5,524	(777) -14.1%
Geothermal	1,306	1,300	6 0.5%
Other resources	147	144	3 2.1%
Total net generation	22,334	28,629	(6,295) -22.0%

In the 1st Quarter of 2007, net electricity generation totaled 22,334 million kWh, a decrease of 22.0% over the 1st Quarter of 2006. Specifically, thermal generation declined by 5,527 million kWh while hydroelectric fell by 777 million kWh due to poor water conditions during the quarter.

Contribution to gross thermal generation

Millions of kWh	1st Quarter					
	2007		2006		Change	
High-sulfur fuel oil (S>0.25%)	594	3.5%	4,295	18.6%	(3,701)	-86.2%
Low-sulfur fuel oil (S<0.25%)	1,711	9.9%	3,664	15.9%	(1,953)	-53.3%
<i>Total fuel oil</i>	<i>2,305</i>	<i>13.4%</i>	<i>7,959</i>	<i>34.5%</i>	<i>(5,654)</i>	<i>-71.0%</i>
Natural gas	6,937	40.2%	7,193	31.1%	(256)	-3.6%
Coal	7,949	46.1%	7,913	34.2%	36	0.5%
Other fuels	53	0.3%	42	0.2%	11	26.2%
TOTAL	17,244	100%	23,107	100.0%	(5,863)	-25.4%

Gross thermal generation declined by 25.4% over the same period of 2006. In both periods, coal accounted for the largest share of generation, which remained

broadly unchanged due to the good performance of the plants, offsetting the reduced capacity of certain plants due to environmental upgrading.

The decrease in fuel oil generation (down 71.0%) is mainly attributable to the reduced operation of traditional oil/gas plants compared with the same period of 2006, when the gas emergency resulted in a higher-than-average use, together with the use of several high-sulfur fuel oil plants.

The natural gas generation fell by 3.6% mainly as a result of the decline of 18.3% in generation by traditional oil/gas condensation plants, partially offset by the increase of 15.0% in generation by almost all combined-cycle plants.

Operating performance

Revenues for the 1st Quarter of 2007 amounted to €4,023 million, down €513 million or 11.3% over the year-earlier period, due mainly to the following factors:

- > a €324 million decrease in revenues from electricity sales on the Power Exchange due to reduction in volumes and prices on the day-ahead and adjustment markets, partially offset by higher sales in the ancillary services market. Adding to this decrease was the reduction in sales of CIP 6 energy in the amount of €25 million due to the poor hydraulic conditions in the 1st Quarter of 2007;
- > a €176 million decrease in revenues from the sale of fuel for trading, resulting from the €160 decrease in revenues from gas sales and the €16 million decline in sales of other fuels;
- > the recognition in the 1st Quarter of 2006 of €92 million in revenues relating to the implementation of settlement agreements with Siemens (€51 million) and the settlement of prior-year items with the ISO, now Terna (€41 million);
- > a €47 million decrease in revenues related to trading on international markets;
- > a €482 million increase in sales of electricity to other Divisions of the Group, partially offset by a decrease of €329 million in revenues as a result of the reduction in business on the domestic free market. This was largely due to the transfer of the "large electricity users" unit to Enel Energia;
- > the €36 million increase in revenues for contract work in progress related to increased engineering and construction work for the International Division companies.

The *gross operating margin* for the period came to €985 million, an increase of €57 million or 6.1% over the €928 million posted in the 1st Quarter of 2006. The rise is essentially attributable to the change in the fair value of contracts for differences (up €141 million) and the improvement in the generation margin (€8 million), partially offset by the lower contribution of prior-year items recognized in 2006 (€92 million).

Operating income came to €754 million, up €59 million or 8.5% over the same period of 2006, less depreciation, amortization and impairments substantially in line with the same period of last year.

Capital expenditure

Capital expenditure came to €223 million and mainly related to the continuation of projects on thermal plants in the amount of €165 million (including the coal conversion of the Torrealvaldiga Nord plant for €115 million), the refurbishing/repowering of various hydroelectric plants in the amount of €29 million, and various projects concerning geothermal generation plants (€20 million, including €7 million for drilling as part of the mining activities for new geothermal generation development opportunities) and wind plants (€3 million).

Domestic Infrastructure and Networks

The Domestic Infrastructure and Networks Division is responsible for operating the electricity and gas distribution networks.

The activities are carried out by:

- > Enel Distribuzione and Deval (the latter's operations are limited to the Valle d'Aosta region) for the distribution of electricity to the free and regulated markets;
- > Enel Rete Gas for the distribution of gas;
- > Enel Sole for public and artistic lighting.

Regulatory and rate issues

Electricity

Regulatory issues

At the end of September 2006, the Authority began proceedings to determine the rates for the transmission, distribution and metering of electricity (Resolution no. 208/06) and set service quality parameters for those services (Resolution no. 209/06), which will come into force in the 2008-2011 regulatory period.

As regards rates, the Authority plans to refine the mechanisms for promoting service efficiency and the incentives for the development of transmission infrastructure and metering devices. As part of the ongoing liberalization of the electricity sector, rate mechanisms will be simplified and the rate system for connections and other flat-rate fees will be adjusted.

As regards service quality, the Authority opened a consultation on April 4, 2007 regarding a number of changes planned for the 2008-2011 period. These changes include the regulation of the number of interruptions added to the current regulation of the cumulative duration of interruptions, the introduction of quality agreements, the introduction of methods for verifying commercial quality data similar to those used for gas, and incentives for investments to enhance the robustness of the overhead lines of the distribution network.

Rates and rate updates

With Resolutions nos. 203/06 and 275/06 issued in September and December 2006, respectively, the Authority updated the rates for distribution services for 2007, also updating the rate component for metering activities (MIS) with an increase of 12%. In line with this change, the distribution rates for residential customers for 2007 were updated. For these customers, the validity of the additional rate plans approved for 2006 was extended until June 30, 2007, i.e. until the complete liberalization of the residential market scheduled for July 1, 2007. The extension does not prejudice the right of operators to suspend the

options or modify them in relation to the D1, D2 and D3 rates that came into effect on January 1, 2007.

Administrative and accounting unbundling

With Resolution no. 11/07 the Authority approved the integrated text of measures regarding administrative and accounting unbundling for companies operating in the electricity and gas industry and the related publication and notification requirements.

The measure amends the previous rules governing administrative and accounting unbundling (Resolutions nos. 310/01 and 311/01), establishing rules for functional separation in order to ensure, among other things, the independence of the managers that operate essential infrastructure. Specifically, it provides for the functional separation of the distribution of electricity and gas, with very tight restrictions and raising corporate governance issues. Enel filed an appeal of the Resolution (limited to Article 11 referring to the independent operator) with the Regional Administrative Court and, on April 6, 2007, submitted a request for re-examination to the Authority, asking it to reformulate the rules provided under Resolution no. 11/07 concerning the composition and powers of the board of directors of the independent operator.

Operating performance of the Domestic Infrastructure and Networks Division

Millions of euro	1st Quarter		
	2007	2006	Change
Electricity			
Revenues	1,262	1,261	1
Gross operating margin	823	775	48
Operating income	638	599	39
Gas			
Revenues	121	114	7
Gross operating margin	82	71	11
Operating income	59	53	6
Total			
Revenues	1,383	1,375	8
Gross operating margin	905	846	59
Operating income	697	652	45
Operating assets	16,892	16,875 ⁽¹⁾	17
Operating liabilities	3,745	4,042 ⁽¹⁾	(297)
Employees at period-end (no.)	24,244	24,701 ⁽¹⁾	(457)
Capital expenditure	315	288	27

(1) At December 31, 2006.

Operating performance

Revenues in the 1st Quarter of 2007 totaled €1,383 million, an increase of €8 million compared with the corresponding period of 2006 (up 0.6%) due to the following factors:

- > a €1 million increase in revenues from the electricity network, essentially consisting of higher other revenues of €6 million, which more than offset the decline in revenues from electricity transport connected with lower volumes of electricity transported despite the increase in the transport component included in the rate;
- > a €7 million increase in revenues from the gas distribution network, reflecting the recognition in the 1st Quarter of 2007 of prior-year items referring to transport for the 2004-2005 period (€27 million), partially offset by the reduction in volumes transported.

The **gross operating margin** came to €905 million, an increase of €59 million or 7.0%, which is attributable to:

- > a €48 million increase in the performance of the electricity network, essentially due to the reduction in operating costs;
- > an €11 million increase in the margin from the gas distribution network mainly attributable to the increase in revenues and the reduction in operating costs.

Operating income net of depreciation, amortization and impairment losses totaling €208 million (€194 million in the 1st Quarter of 2006), amounted to €697 million, an increase of €45 million or 6.9% compared with the same period of 2006.

Capital expenditure

Capital expenditure amounted to €315 million, an increase of €27 million, due essentially to increased investment in the distribution network.

International

All resources used in international activities relating to the production, distribution and sale of electricity are concentrated in the International Division.

The chief geographical areas of operation are:

- > the Iberian peninsula, where the Division is engaged in power generation (Enel Viesgo Generación and Enel Unión Fenosa Renovables), power distribution and sales, and support services (Electra de Viesgo Distribución, Enel Viesgo Energía and Enel Viesgo Servicios) in Spain;
- > Central Europe, where it is engaged in power trading (Enel France), wind-power development (Erelis) in France, and power generation in Slovakia (Slovenské elektrárne);
- > South-eastern Europe, where it is active in generation and support services in Bulgaria (Enel Maritza East 3 and Enel Operations Bulgaria) and power distribution, sales and support services in Romania (Enel Electrica Banat, Enel Electrica Dobrogea and Enel Servicii);
- > Russia, with energy trading and sales (RusEnergosbyt) and generation plant operation (ESN Energo) in the Russian Federation;
- > the Americas, where it is engaged in generating power from renewable resources (Enel North America, Enel Latin America, Enel Panama and Enel Fortuna).

Regulatory and rate issues

Spain

Royal Decree Law no. 1634/2006

On December 30, 2006, Decree Law no. 1634/2006 was published. It establishes rates for 2007 and changes certain significant aspects of the Spanish electricity market, including:

- > the elimination of the obligation for bilateral contracting between power generators and distributors of the same group at a regulated price of €42.35/MWh. The 1st Quarter 2007 price for bilateral intragroup contracts was set equal to the sum of the pool price, the capacity payment and fee paid in remuneration for ancillary services. However, starting March 1, ministerial order no. 400/2007 provides that bilateral contracts may be freely entered into by parties without any distinction as to intra-group contracts;
- > the elimination of the right to receive capacity payments for nuclear power plants;
- > the updating of the rate deficit for 2005 amounting to €3.8 million, to be recovered through a component of the 2007 rate charged to all customers;
- > the ex ante establishment of the maximum amount of the rate deficit for the 1st Quarter of 2007 at €0.75 million. The amount for the entire year was capped at €3.75 million.

Antitrust proceedings

On May 8, 2005, the Spanish antitrust authority, Servicio de Defensa de la Competencia (SDC), initiated a second investigation of Enel Viesgo Generación for alleged abuse of a dominant position in the technical restraints market (following that relating to 2002 and 2003, which concluded on December 28, 2006 with the imposition of a fine of €2.5 million, against which the company has appealed). The proceedings, which were initiated in response to a complaint filed by another operator, regard the period from mid-2004 through the first part of 2005. The other operator has also petitioned the Spanish antitrust court, Tribunal de Defensa de la Competencia, to extend the period under investigation to include all of 2005. On February 27, 2007, the SDC initiated a third investigation of Enel Viesgo Generación for alleged abuse of a dominant position in the technical restraints market with regard to the period from March to December 2003. On March 27, 2007 the SDC, based on the evidence presented by the parties, proposed dismissing the second proceeding, given that no evidence of actual abuse was provided. A final decision is pending.

Emissions Trading

The emissions produced by the plants of Enel Viesgo Generación exceeded the allocated emissions allowances by 0.4 million metric tons in the 1st Quarter of 2007. Considering the purchases of allowances made in the quarter (equal to 0.7 million metric tons) and the surplus at the start of the period (0.3 million metric tons), the overall surplus at March 31, 2007 came to 0.6 million metric tons. Spain's allocation plan for 2008-2012 was approved by the Government with a Royal Decree of November 24, 2006. The plan was then approved by the European Commission in February 2007, on the condition that certain changes be made, including the specification of the complete list of plants and the related allowances. Enel Viesgo Generación filed an appeal with Brussels against the plan presented by the Government, challenging the criteria to be used in allocating emissions allowances among plants employing the same technology but belonging to different companies.

Slovakia

The New Regulatory Act (Law 107 of February 22, 2007)

On March 15, 2007, Law 107 came into force amending Law 276/2001, which established the Slovakian regulator (URSO). The amendments introduce important changes in the procedure for appointing members of URSO's board and the powers of URSO. Specifically:

- > the chairman of URSO will be appointed by the Government and no longer by the URSO board;

- > members of the board of URSO may be removed by the President of the Republic acting upon a proposal of the Government or the Parliament "if they act contrary to regulatory policy";
 - > the Ministry for the Economy will be involved in the process of setting the prices regulated by URSO by having the power to formally render an opinion;
 - > URSO will have the power to regulate "other goods and services", with respect to those explicitly specified in the law, in "extraordinary market circumstances".
- The changes introduced by the law limit the power and independence of the regulator, while increasing the scope for political control over regulated prices.

New URSO board

One of the immediate effects of Law 107/2007 amending the Regulatory Act was the replacement of the entire URSO board. The old board's term of office expired on March 15 and the process for appointing new members has already begun. The process for appointing new members has not changed. The Government and Parliament each submit a slate of 6 names to the President of the Republic, who must appoint the 6 URSO board members by 3 names from each of the two lists. The two lists were submitted to the President at the end of March. Once appointed, the board will be partially re-appointed every two years by replacing two members, again chosen by the President from among two pairs of names submitted by the Government and Parliament.

The must-run plants of Slovenské elektrárne (SE)

Slovenské elektrárne (SE) owns two thermal plants that, in compliance with the "general economic interest" clause of the Slovakian Energy Act (Law 658/2004), are required to guarantee availability of capacity and electricity.

The law states that SE is to be compensated for costs, incurred for the operation of these plants, that cannot be recovered through the sale of electricity on the market, through a system costs rate component levied on all final consumers. This rate component is set annually by the Slovakian regulator (URSO) based on the expected extra costs to be paid to SE.

The URSO (Decision 15/2007/E) set the reimbursement rate for the two must-run plants (ENO and EVO) at a total of SKK 2.1 billion (equal to about €60 million) for 2007. URSO then decided to pay SE a further SKK 0.2 billion in 2007, as partial reimbursement of the compensation for 2005 that, based on the final data, was deemed insufficient by about SKK 0.7 billion (equal to about €20 million). The remaining portion of the reimbursement for 2005 will be paid in 2008.

Emissions Trading

As regards the 2008-2012 allocation plan, Slovenské elektrárne was allocated allowances equal to an annual average of 9.2 million metric tons of CO₂ out of a

total of 41.3 million metric tons. With Communication COM(2006) 725 of November 29, 2006, the European Commission imposed a 25% reduction in the cap on total emission allowances. In January 2007, the Slovakian Government filed a formal appeal against the Commission's decision, but it is highly likely that the Slovakian Government must now revise its plan and redistribute the allocation among the plants in the different sectors.

Bulgaria

Emissions Trading

Bulgaria's allocation plan has not yet been submitted to the European Commission. The average annual cap proposed by the Government for 2008-2012 is 67.7 million metric tons, but the complete list of plants and the relative allocations has not yet been drawn up. A list of individual allocations to individual plants is, however, available for 2007 (the year Bulgaria joined the EU). It allocated about 5.2 million metric tons to Enel Maritza East 3. Overall, it is expected that the impact of the final allocation will be essentially neutral.

Operating performance of the International Division

Millions of euro	1st Quarter		
	2007	2006	Change
Revenues	1,059	607	452
Net income/(charges) from commodity risk management	2	-	2
<i>Gross operating margin</i>	<i>317</i>	<i>176</i>	<i>141</i>
Depreciation, amortization and impairment losses	124	49	75
Operating income	193	127	66
Operating assets	10,564	10,008 ⁽¹⁾	556
Operating liabilities	4,075	4,037 ⁽¹⁾	38
Employees at period-end (no.)	13,821	13,861 ⁽¹⁾	(40)
Capital expenditure	144	37	107

(1) At December 31, 2006.

The following table breaks down results by geographical area.

Millions of euro	Revenues 1st Quarter			Gross operating margin 1st Quarter			Operating income 1st Quarter		
	2007	2006	Change	2007	2006	Change	2007	2006	Change
Iberian peninsula	243	361	(118)	54	72	(18)	30	40	(10)
Central Europe	405	-	405	177	-	177	102	-	102
South-eastern Europe	179	201	(22)	42	74	(32)	27	63	(36)
Russia	162	1	161	1	-	1	1	-	1
Americas	70	44	26	43	30	13	33	24	9
Total	1,059	607	452	317	176	141	193	127	66

Net electricity generation

Millions of kWh	1st Quarter			
	2007	2006	Change	
Thermal	2,399	2,160	239	11.1%
Hydroelectric	2,464	796	1,668	-
Nuclear	4,097	-	4,097	-
Other resources	317	406	(89)	-21.9%
Total	9,277	3,362	5,915	175.9%

Net generation abroad in the 1st Quarter of 2007 totaled 9,277 million kWh, an increase of 5,915 million kWh compared with the same period of 2006. The change is attributable primarily to the consolidation of Slovenské elektrárne (5,978 million kWh), which mainly contributes with nuclear power generation (4,097 million kWh) and hydroelectric generation (1,185 million kWh), and to increased generation in South America (467 million kWh), mainly relating to the consolidation of Enel Panama and Enel Fortuna (328 million kWh). The increase was partly offset by a decrease in net generation in Spain (564 million kWh), mainly related to thermal generation.

Contribution to gross thermal generation

Millions of kWh	1st Quarter					
	2007		2006		Change	
High-sulfur fuel oil (S>0.25%)	-	-	29	1.2%	(29)	-100.0%
Natural gas	8	0.1%	47	2.0%	(39)	-83.0%
Coal	2,723	38.0%	2,327	96.8%	396	17.0%
Nuclear fuel	4,440	61.9%	-	-	4,440	-
Total	7,171	100.0%	2,403	100.0%	4,768	-

As regards the mix of fuels used for thermal generation, the proportion of the various fuels used for gross thermal generation in the 1st Quarter of 2007 was

greatly influenced by the use of nuclear fuel following the inclusion of Slovenské elektrárne in the scope of consolidation.

Electricity sales

Millions of kWh	1st Quarter			
	2007	2006	Change	
High-voltage	4,868	650	4,218	-
Medium-voltage	1,357	516	841	-
Low-voltage	1,521	1,374	147	10.7%
Total	7,746	2,540	5,206	-

Electricity sold by the International Division in the 1st Quarter of 2007 increased by 5,206 million kWh, a rise that is mainly attributable to the inclusion in the scope of consolidation of RusEnergoSbyt (up 5,211 million kWh).

Operating performance

Revenues increased by €452 million or 74.5% in the 1st Quarter of 2007, rising from €607 million to €1,059 million. The increase is essentially due to the consolidation, after the 1st Quarter of 2006, of Slovenské elektrárne (€388 million), RusEnergoSbyt (€162 million), Enel Panama and Enel Fortuna (€25 million), and Enel France (€17 million). The increases were partially offset by the reduction in revenues from the Spanish firms (€118 million) mainly related to lower energy generation and the application, from March 2, 2006 to February 28, 2007, of regulations governing negotiations between power generators and distributors within a single group, as well as lower revenues from the Bulgarian companies (€26 million), mainly due to the recognition in the 1st Quarter of 2006 of revenues received from disputes regarding project delays.

The **gross operating margin** reached €317 million, an increase of €141 million or 80.1% compared with the 1st Quarter of 2006, mainly due to the change in the scope of consolidation in the amount of €193 million (attributable to Slovenské elektrárne for €189 million, Enel Panama and Enel Fortuna for €16 million and Enel France's negative margin of €12 million). The increase was partially offset by reimbursements recognized by the Bulgarian companies in 2006 and the losses posted by the Spanish companies for €18 million, mainly due to the disposal of 30% of the holding in Enel Unión Fenosa Renovables.

Operating income came to €193 million in the 1st Quarter of 2007, an increase of €66 million compared with the same period of 2006, most of which (€115 million) is attributable to the change in the scope of consolidation for the period (€114 million for Slovenské elektrárne). These increases were partially offset by

reimbursements recognized by the Bulgarian companies in 2006 and the reduction in operating income at the Spanish companies in the amount of €10 million.

Capital expenditure

Capital expenditure amounted to €144 million, an increase of €107 million over the 1st Quarter of 2006. This increase is mainly attributable to investments in generation plants, equal to €94 million, carried out in Spain by Enel Viesgo Generación and Enel Unión Fenosa Renovables (€56 million), by Enel North America (€21 million) and by Enel Maritza East 3 (€10 million), as well as the consolidation of Slovenské elektrárne (7 million).

The increase in spending on distribution networks abroad, equal to €13 million, mainly reflects the increase in investment in Romania (€10 million).

Parent Company and Other Activities

Millions of euro	1st Quarter		
	2007	2006	Change
Parent Company			
Revenues	210	304	(94)
Net income/(charges) from commodity risk management	-	3	(3)
Gross operating margin	(11)	68	(79)
Operating income	(15)	65	(80)
Operating assets	1,069	1,013 ⁽¹⁾	56
Operating liabilities	1,136	1,275 ⁽¹⁾	(139)
Employees at period-end (no.)	681	652 ⁽¹⁾	29
Capital expenditure	1	-	1
Services and Other Activities			
Revenues	272	236	36
Gross operating margin	64	40	24
Operating income	43	20	23
Operating assets	1,601	1,771 ⁽¹⁾	(170)
Operating liabilities	1,176	1,128 ⁽¹⁾	48
Employees at period-end (no.)	4,636	4,585 ⁽¹⁾	51
Capital expenditure	11	15	(4)

(1) At December 31, 2006.

Parent Company

In its capacity as an industrial holding company, Enel SpA defines strategic targets for the Group and coordinates activities of subsidiaries.

In addition, Enel SpA manages central treasury operations and insurance risk coverage, providing assistance and guidelines on organization, personnel management and labor relations, accounting, administrative, fiscal, legal, and corporate matters. Moreover, Enel retains title to long-term electricity import contracts.

Operating performance

Revenues in the 1st Quarter of 2007 came to €210 million, a decrease of €94 million over the same period of 2006 (down 30.9%). This decrease is mainly attributable to:

- > the reduction in revenues from electricity sales, mainly due to lower average sales prices despite higher volumes (€39 million) and to lower revenues from other Group companies;
- > the release in the 1st Quarter of 2006 to the income statement of the gain recognized in equity in 2005 (€23 million) resulting from the fair value measurement of the Terna bonus shares.

The **gross operating margin** in the 1st Quarter of 2007, a negative €11 million, declined by €79 million over the same period of 2006. The decrease is mainly

attributable to the reduction in the margin on electricity sales (€52 million) and the income associated with the Terna bonus shares recognized in the 1st Quarter of 2006.

Operating income came to a negative €15 million, down €80 million compared with the 1st Quarter of 2006, reflecting in part higher depreciation, amortization and impairment losses (€1 million).

Services and Other Activities

The Services and Other Activities area provides competitive services to the various Enel Group companies. The area includes real estate and facility services, IT services, personnel training and administration, administrative services, factoring and insurance services.

Operating performance

Revenues for the Services and Other Activities area came to €272 million in the 1st Quarter of 2007, compared with €236 million for the same period of 2006. The increase of €36 million (up 15.3%) is essentially attributable to the growth in services provided to other Divisions of the Group by Enel Servizi (€20 million) and to the increase of €18 million in revenues of Dalmazia Trieste arising from the sale of office and residential buildings.

The **gross operating margin** in the 1st Quarter of 2007 came to €64 million, an increase of €24 million or 60.0% over the corresponding period of 2006, largely as a result of higher capital gains on the sales of buildings

Operating income in the 1st Quarter of 2007 amounted to €43 million, up €23 million over the same period of 2006, with depreciation, amortization and impairment losses increasing by €1 million.

Consolidated financial statements

Condensed Consolidated Income Statement

Millions of euro	1st Quarter			
	2007	2006	Change	
Total revenues	9,728	10,251	(523)	-5.1%
Total costs	7,396	7,967	(571)	-7.2%
Net income/(charges) from commodity risk management	-	(177)	177	-
GROSS OPERATING MARGIN	2,332	2,107	225	10.7%
Depreciation, amortization and impairment losses	623	524	99	18.9%
OPERATING INCOME	1,709	1,583	126	8.0%
Financial income	188	81	107	132.1%
Financial expense	315	213	102	47.9%
Total financial income/(expense)	(127)	(132)	5	-3.8%
Share of income/(expense) from equity investments accounted for using the equity method	2	1	1	100.0%
INCOME BEFORE TAXES	1,584	1,452	132	9.1%
Income taxes	597	577	20	3.5%
NET INCOME FOR THE PERIOD (shareholders of the Parent Company and minority interests)	987	875	112	12.8%
Attributable to minority interests	44	33	11	33.3%
Attributable to shareholders of the Parent Company	943	842	101	12.0%
Earnings per share (euro) ⁽¹⁾	0.16	0.14	0.02	14.3%

(1) Diluted earnings per share are equal to earnings per share.

Condensed Consolidated Balance Sheet

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006	Change
ASSETS			
Non-current assets			
Property, plant and equipment and intangible assets	35,892	35,557	335
Goodwill	2,391	2,271	120
Equity investments accounted for using the equity method	120	56	64
Other non-current assets ⁽¹⁾	8,045	3,616	4,429
Total	46,448	41,500	4,948
Current assets			
Trade receivables	8,121	7,958	163
Inventories	1,112	1,209	(97)
Cash and cash equivalents	631	547	84
Other current assets ⁽²⁾	5,260	3,286	1,974
Total	15,124	13,000	2,124
TOTAL ASSETS	61,572	54,500	7,072
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity attributable to the shareholders of the Parent Company	19,832	18,460	1,372
Equity attributable to minority interests	689	565	124
Total	20,521	19,025	1,496
Non-current liabilities			
Long-term loans	12,614	12,194	420
Other provisions and deferred tax liabilities	9,504	9,288	216
Other non-current liabilities	1,179	1,160	19
Total	23,297	22,642	655
Current liabilities			
Short-term loans and current portion of long-term loans	6,001	1,409	4,592
Trade payables	5,726	6,188	(462)
Other current liabilities and tax provision for the period	6,027	5,236	791
Total	17,754	12,833	4,921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	61,572	54,500	7,072

(1) Of which long-term financial receivables equal to €1,096 million at March 31, 2007 and €1,090 million at December 31, 2006.

(2) Of which short-term financial receivables equal to €1,869 million at March 31, 2007 (€251 million at December 31, 2006) and securities equal to €25 million at March 31, 2007 and December 31, 2006.

Condensed Consolidated Statement of Cash Flows

Millions of euro	1st Quarter		
	2007	2006	Change
Cash flows from operating activities (A)	1,871	1,888	(17)
Investments in tangible and intangible assets	(698)	(500)	(198)
Investments in entities (or business units) less cash and cash equivalents acquired	(4,544)	(55)	(4,489)
Disposals of entities (or business units) less cash and cash equivalents sold	-	372	(372)
(Increase)/Decrease in other investing activities	108	2	106
Cash flows from investing/disinvesting activities (B)	(5,134)	(181)	(4,953)
Change in net financial debt	3,317	(874)	4,191
Increase in share capital and reserves due to the exercise of stock options	30	54	(24)
Cash flows from financing activities (C)	3,347	(820)	4,167
Increase/(Decrease) in cash and cash equivalents (A+B+C)	84	887	(803)
Cash and cash equivalents at beginning of the period	572	508	64
Cash and cash equivalents at the end of the period	656 ⁽¹⁾	1,395	(739)

(1) Of which €25 million in short-term securities at March 31, 2007.

Statement of Income and Charges Recognized for the Period

Millions of euro	1st Quarter	
	2007	2006
Effective portion of change in the fair value of cash flow hedges	185	57
Change in the fair value of financial investments available for sale	186	(13)
Exchange rate differences	33	7
Net income for period recognized in equity	404	51
Net income for period recognized in income statement	987	875
Total income and charges recognized for the period	1,391	926
Attributable to:		
> shareholders of the Parent Company	1,341	882
> minority interests	50	44

Operating performance and financial position

Group operating performance

Revenues

Millions of euro	1st Quarter		
	2007	2006	Change
Electricity sales and transport and Electricity Equalization Fund contributions	8,523	8,798	(275)
Gas sold and transported to end-users	751	750	1
Other services, sales and revenues	454	703	(249)
Total	9,728	10,251	(523)

In the 1st Quarter of 2007, revenues from “electricity sales and transport and Electricity Equalization Fund contributions” came to €8,523 million, a decrease of €275 million from the same period of 2006 (down 3.1%). The decrease is essentially due to the following factors:

- > a €696 million decline in revenues for electricity sales and transport on the domestic regulated market due essentially to the decrease in quantities sold and the lower sales price connected with the decrease in electricity rates in line with the reduction in the average cost of energy purchased;
- > a €393 million reduction in revenues for the sale of electricity on the Power Exchange and to the Single Buyer, due essentially to the decline in volumes and sales prices;
- > a €464 million increase in revenues from foreign operations (€371 million of which related to the consolidation of Slovenské elektrárne, €161 million to the consolidation of RusEnergosbyt, and €24 million to the consolidation of Enel Panama and Enel Fortuna, which was partially offset by a €93 million decline in revenues from the Spanish companies);
- > a €480 million increase in the sale and transport of electricity in Italy on the free market due primarily to an increase in quantities sold;
- > a €109 million decline in revenues from wholesale sales due to a decline in volumes sold to resellers.

Revenues from “gas sold and transported to end-users” came to €751 million in the 1st Quarter of 2007, essentially in line with the same figures for year-earlier period. The increase in revenues due to the application of Resolution no. 79/07 of the Authority for Electricity and Gas, which definitively established the more favorable economic terms for the provision of gas for 2005 and the 1st Half of 2006, was partially offset by the reduction in revenues due essentially to the lower quantities sold.

Revenues for “other services, sales and revenues” came to €454 million in the 1st Quarter of 2007, a decline of €249 million or 35.4% from the same period of the previous year, attributable essentially to the following factors:

- > a €107 million decrease in sales of fuel for trading connected with the decline in volumes sold for the period;
- > the recognition in the 1st Quarter of 2006 of €92 million in revenues related to the implementation of the settlement agreement with Siemens (€51 million) and the settlement of past items with the ISO, now Terna (€41 million);
- > a €30 million decline in revenues for contract work in progress due to the reduction in engineering and construction for third parties both in Italy and abroad.

Costs

Millions of euro	1st Quarter		
	2007	2006	Change
Electricity purchases from third parties	4,441	4,484	(43)
Consumption of fuel for electricity generation	782	1,212	(430)
Purchase of fuel for trading and natural gas for resale to end-users	502	693	(191)
Materials	136	138	(2)
Personnel	725	662	63
Services, leases and rentals	935	747	188
Charges for CO ₂ emissions	(5)	104	(109)
Other operating costs	111	120	(9)
Capitalized expenses	(231)	(193)	(38)
Total	7,396	7,967	(571)

Costs for “electricity purchases from third parties” fell by €43 million in the 1st Quarter of 2007, down 1.0%. This contraction is primarily related to the lower volume of sales on the domestic regulated market, together with a decline in average energy purchase prices. This effect was essentially offset by an increase in volumes purchased for the domestic free market, as well as by the change in the scope of consolidation of foreign companies.

Costs for the “consumption of fuel for electricity generation” in the 1st Quarter of 2007 came to €782 million, down €430 million or 35.5% from the same

period of the previous year, due primarily to a contraction in thermal electricity generation and an improvement in the fuel mix from the 1st Quarter of 2006, which was affected by the gas emergency.

Costs for the “purchase of fuel for trading and natural gas for resale to end-users” for the 1st Quarter of 2007 fell €191 million (down 27.6%), essentially attributable to a decrease in purchases of gas both for trading and for sale to end-users.

“Personnel” costs for the 1st Quarter of 2007 totaled €725 million, an increase of €63 million or 9.5%. Excluding the effects of the change in the scope of consolidation, which were primarily related to changes in foreign operations, personnel costs for the 1st Quarter increased by €20 million, with a reduction in the average workforce of 3.7%.

Costs for “services, leases and rentals” totaled €935 million in the 1st Quarter of 2007, up €188 million or 25.2% over the same period of 2006, due primarily to an increase in electricity and gas transport costs.

“Charges for CO₂ emissions” showed net income of €5 million for the 1st Quarter of 2007, as compared with a charge of €104 million for the same period of the previous year. This result for the 1st Quarter of 2007 is essentially due to the measurement of the surplus allowances at the end of the period (about 2.1 million metric tons).

Net income/(charges) from commodity risk management for the 1st Quarter of 2007 includes €63 million in respect of the positive effects of the fair value measurement of the derivative contracts at the end of the period, which was fully offset by charges on contracts closed out during the period. For the 1st Quarter of 2006, the net charge on commodity risk management came to €177 million due to net unrealized charges of €56 million and net realized charges of €121 million. The change is due primarily to the results related to contracts for differences.

Depreciation, amortization and impairment losses increased by €99 million (up 18.9%) over the 1st Quarter of 2006, due essentially to an increase in depreciation and amortization related to the consolidation of Slovenské elektrárne.

Operating income for the 1st Quarter of 2007 came to €1,709 million, an increase of €126 million or 8.0% over the same period in 2006.

Net financial expense and the result of investments accounted for using the equity method improved by a total of €6 million over the year-earlier

period. This change is essentially attributable to greater financial expense in respect of the increase in financial debt during 2007 and to the consolidation of Slovenské elektrárne, which was more than offset by the amount paid by Endesa in respect of the meeting premium.

Income taxes for the 1st Quarter of 2007 totaled €597 million, compared with €577 million in the same period of the previous year. The change in the effective tax rate (37.7% for the 1st Quarter of 2007, compared with 39.7% a year earlier) is essentially due to the increase in tax-exempt gains on equity investments and the tax effects of the recently acquired foreign companies.

Analysis of the Group's financial position

Non-current assets – €46,448 million

Property, plant and equipment and intangible assets for the 1st Quarter of 2007 increased by a total of €335 million. The rise is essentially the result of capital expenditures for the period totaling €698 million, as well as the change in the scope of consolidation in the amount of €181 million related primarily to the acquisition of Enel Fortuna, net of depreciation, amortization and impairment losses in the amount of €597 million. The increase also reflects exchange rate gains for the period.

Goodwill amounted to €2,391 million, an increase of €120 million, mainly attributable to the recognition in the 1st Quarter of 2007 of goodwill related to the acquisitions of Enel Fortuna (€68 million) and AMP Resources (€33 million), which operates in the renewables field in North America. The recognition of goodwill resulting from the differences in the 1st Quarter 2007 between the costs of the equity investments and the assets acquired net of liabilities assumed was effected on a provisional basis until such amounts can be allocated more accurately.

Equity investments accounted for using the equity method came to €120 million, up €64 million due to the increase in the investment in LaGeo from 12.50% to 28.39% following the acquisition, by means of the contribution of assets and services, of an additional stake in the company, which made it possible to classify it as an associate.

Other non-current assets came to €8,045 million, up €4,429 million primarily as a result of the following developments:

- > a €4,325 million increase in equity investments in other companies due essentially to the acquisition of 9.99% of Endesa and its measurement at fair value as at March 31, 2007 in the amount of €4,317 million;
- > growth of €35 million in non-current financial assets related to derivative instruments;

> an increase of €40 million in deferred tax assets due essentially to the recognition of tax items for the period.

Current assets – €15,124 million

The €163 million increase in *trade receivables* is related primarily to the increase in receivables for gas sales.

Other current assets came to €5,260 million and break down as follows:

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006	Change
Current financial assets	2,319	402	1,917
Tax receivables	426	431	(5)
Receivables due from Electricity Equalization Fund	1,295	1,355	(60)
Receivables due from others	1,220	1,098	122
Total	5,260	3,286	1,974

The change in “current financial assets” is primarily attributable to the effects of the share swap contracts representing 14.99% of Endesa, which resulted in the recognition of financial receivables in the amount of €1,606 million (the margin account), as well as the fair value measurement of the option embedded in these contracts in the amount of €235 million.

Equity attributable to the shareholders of the Parent Company – €19,832 million

Share capital at March 31, 2007 consisted of 6,181,108,564 ordinary shares with a par value of €1.00 each.

The main changes for the quarter concerned net income for the period (€943 million), the exercise of 4,912,285 stock options granted under the 2002, 2003 and 2004 stock option plans (€30 million), as well as net gains recognized directly in equity related to the valuation of financial instruments in the amount of €371 million, exchange rate differences resulting from the translation of financial statements in the amount of €27 million, and the charge for the period related to the stock options outstanding in the amount of €1 million.

Statement of changes in equity

Millions of euro	Share capital and reserves attributable to the shareholders of the Parent Company								Equity attributable to shareholders of the Parent Company		
	Share capital	Share premium reserve	Legal reserve	Other reserves	Retained earnings	Translation of financial statements in currencies other than euro	Reserve from measurement of financial instruments	Net income for the period	Equity attributable to shareholders of the Parent Company	Equity attributable to minority interests	Sharehold. equity
January 1, 2006	6,157	511	1,453	2,245	5,923	40	2	2,726	19,057	359	19,416
Exercise of stock options	10	64	-	(21)	-	-	-	-	53	-	53
Stock option charges	-	-	-	1	-	-	-	-	1	-	1
Other changes	-	-	-	-	(48)	-	-	-	(48)	-	(48)
Allocation of net income from the previous year	-	-	-	-	2,726	-	-	(2,726)	-	-	-
Net income for period recognized in equity	-	-	-	-	-	(1)	41	-	40	11	51
Net income for period recognized in income statement	-	-	-	-	-	-	-	842	842	33	875
March 31, 2006	6,157	575	1,453	2,225	8,601	39	43	842	19,945	403	20,348
January 1, 2007	6,176	607	1,453	2,245	5,934	81	163	1,801	18,460	565	19,025
Exercise of stock options	5	26	-	(1)	-	-	-	-	30	-	30
Stock option charges	-	-	-	1	-	-	-	-	1	-	1
Change in consolidation method	-	-	-	-	-	-	-	-	-	74	74
Allocation of net income from the previous year	-	-	-	-	1,801	-	-	(1,801)	-	-	-
Net income for period recognized in equity	-	-	-	-	-	27	371	-	398	6	404
Net income for period recognized in income statement	-	-	-	-	-	-	-	943	943	44	987
March 31, 2007	6,181	633	1,453	2,245	7,735	108	534	943	19,832	689	20,521

Non-current liabilities – €23,297 million

Long-term loans amounted to €12,614 million, consisting of bonds in the amount of €8,435 million, as well as bank loans and other financing in euro and other currencies in the amount of €4,179 million.

Other provisions and deferred tax liabilities increased by €216 million due primarily to the recognition of deferred taxes for the period.

Current liabilities – €17,754 million

Short-term loans and the current portion of long-term loans increased by €4,592 million, going from €1,409 million at the end of 2006 to €6,001 million at March 31, 2007. This rise is primarily attributable to the €3,213 million increase in commercial paper issues and an increase in amounts payable to banks in the amount of €1,404 million.

Trade payables, in the amount of €5,726 million, fell by €462 million, essentially due to a decrease in payables for electricity purchases.

Other current liabilities and tax provision for the period came to €6,027 million and break down as follows:

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006	Change
Payables due to customers for security deposits and reimbursements	1,528	1,572	(44)
Payables due to the Electricity Equalization Fund	1,010	948	62
Current financial liabilities	954	941	13
Social security contributions payable and payables to employees and employee associations	433	488	(55)
Tax payables and tax provision for the period	1,184	410	774
Other	918	877	41
Total	6,027	5,236	791

"Tax payables and tax provision for the period" at March 31, 2007 show estimated current taxes for the period of €560 million.

Net capital employed and related funding

The following schedule shows the composition of and changes in *net capital employed*:

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006	Change
Net non-current assets:			
> property, plant and equipment and intangible assets	35,892	35,557	335
> goodwill	2,391	2,271	120
> equity investments accounted for using the equity method	120	56	64
> other net non-current assets/(liabilities)	4,177	(187)	4,364
Total	42,580	37,697	4,883
Net current assets:			
> trade receivables	8,121	7,958	163
> inventories	1,112	1,209	(97)
> net Electricity Equalization Fund	284	407	(123)
> other net current assets/(liabilities) and tax provision for the period	(2,945)	(2,634)	(311)
> trade payables	(5,726)	(6,188)	462
Total	846	752	94
Gross capital employed	43,426	38,449	4,977
Provisions:			
> post-employment and other employee benefits	(2,648)	(2,633)	(15)
> provisions for risks and charges and net deferred taxes	(5,263)	(5,101)	(162)
Total	(7,911)	(7,734)	(177)
Net capital employed	35,515	30,715	4,800
Total shareholders' equity	20,521	19,025	1,496
Net financial debt	14,994	11,690	3,304

Net capital employed went from €30,715 million at December 31, 2006 to €35,515 million at March 31, 2007, and is covered by shareholders' equity (Group and minority interests) in the amount of €20,521 million and net financial debt of €14,994 million. With regard to the latter figure, the debt-to-equity ratio as at March 31, 2007 is 0.73 (compared with 0.61 as at December 31, 2006).

Net financial debt

Millions of euro

	at Mar. 31, 2007	at Dec. 31, 2006	Change
Long-term debt:			
> bank loans	4,052	3,677	375
> bonds	8,435	8,375	60
> other loans	127	142	(15)
<i>Long-term debt</i>	<i>12,614</i>	<i>12,194</i>	<i>420</i>
Long-term financial receivables	(1,096)	(1,090)	(6)
Net long-term debt	11,518	11,104	414
Short-term debt:			
Bank loans:			
> short-term portion of long-term debt	213	233	(20)
> other short-term bank debt	1,946	542	1,404
<i>Short-term bank debt</i>	<i>2,159</i>	<i>775</i>	<i>1,384</i>
Bonds (short-term portion)	64	59	5
Other loans (short-term portion)	32	31	1
Commercial paper	3,744	531	3,213
Other short-term financial payables	2	13	(11)
<i>Other short-term debt</i>	<i>3,842</i>	<i>634</i>	<i>3,208</i>
Long-term financial receivables (short-term portion)	(31)	(30)	(1)
Factoring receivables	(225)	(211)	(14)
Other short-term financial receivables and financial receivables from associates	(1,613)	(10)	(1,603)
Cash and cash equivalents and short-term securities	(656)	(572)	(84)
<i>Cash and cash equivalents and short-term financial receivables</i>	<i>(2,525)</i>	<i>(823)</i>	<i>(1,702)</i>
Net short-term financial debt	3,476	586	2,890
Net financial debt	14,994	11,690	3,304

Net financial debt as at March 31, 2007 totaled €14,994 million, an increase of €3,304 million over December 31, 2006, due primarily to the acquisition of a 9.99% stake in Endesa for €4,134 million, which was partially offset by operating cash flows for the first three months of the year.

Specifically, net long-term financial debt increased by €414 million as the net result of the increase in gross long-term debt in the amount of €420 million and the increase in long-term financial receivables of €6 million. Of particular note under long-term debt was the €500 million drawing on the syndicated line of credit granted in 2005 to Enel SpA in the amount of €5 billion over 5 years (and renewable for a further two years).

Net short-term financial debt amounted to €3,476 million at March 31, 2007, up €2,890 million over December 31, 2006, essentially the net result of the €1,404 million increase in short-term bank debt, the €3,213 million increase in commercial paper, and the €1,702 million increase in cash and cash equivalents and short-term financial receivables. The change in the short-term components of net

financial debt was also affected by the acquisition of 9.99% of Endesa, as well as by the effects of the structure of the share swaps entered into by Enel through its subsidiary Enel Energy Europe for 14.99% of the Spanish firm, the underlying assets of which are represented by a maximum of 158,601,597 Endesa shares.

Cash flows

Cash flows from operating activities came to €1,871 million in the 1st Quarter of 2007, essentially in line with the figure for the corresponding period of the previous year. This performance was affected by an improvement in gross operating income for the two periods in question, which was fully offset by increased uses of cash related to the change in net current assets.

Cash flows from investing/disinvesting activities absorbed funds in the amount of €5,134 million in the 1st Quarter of 2007, compared with €181 million in the same period of 2006.

In particular, investments in property, plant and equipment and intangible assets, in the amount of €698 million, increased by €198 million due essentially to an increase in investments in power plants in Italy and abroad.

Investments in companies and business units, net of cash and cash equivalents acquired, came to €4,544 million and primarily regard €4,134 million in respect of the purchase of 9.99% of Endesa and €125 million for the acquisition of Enel Fortuna. The flow for the 1st Quarter of 2006 in the amount of €55 million largely regarded the acquisitions in the Gas area totaling €40 million.

Cash flows from the disposal of companies and business units, net of cash and cash equivalents sold, decreased by €372 million from the year-earlier period, related primarily to the sale in the 1st Quarter of 2006 of a 6.28% stake in Wind to a subsidiary of Weather for €328 million.

The contribution of cash flows from financing activities in the amount of €3,347 million and operating activities in the amount of €1,871 million covered the requirements of investing activities in the 1st Quarter of 2007. The surplus is reflected in the increase in cash and cash equivalents, which reached €656 million at March 31, 2007, compared with the €572 million at the end of 2006.

Other information

Disclosure on related parties

As the main operator in the field of generation, transport and distribution of electricity in Italy, Enel provides services to a number of State-controlled companies. In the current regulatory framework, Enel concludes transactions with Terna - Rete Elettrica Nazionale, the Single Buyer, the Electricity Services Operator and the Market Operator (each of which is entirely controlled either directly or indirectly by the Ministry for the Economy and Finance).

Fees for the transport of electricity payable to Terna and certain charges paid to the Market Operator are determined by the Authority for Electricity and Gas. Transactions relating to purchases and sales of electricity concluded with the Market Operator on the Power Exchange and with the Single Buyer are settled at market prices.

Companies in the Domestic Sales Division acquire electricity from the Single Buyer and enter into contracts for differences regarding the allocation of CIP 6 energy with the Electricity Services Operator, in addition to paying Terna fees for the use of the National Transmission Network (NTN). Companies that are part of the Domestic Generation and Energy Management Division, in addition to paying fees for the use of the NTN to Terna, acquire from and sell electricity to the Market Operator on the Power Exchange.

Enel also acquires fuel for generation and gas distribution and sale from Eni, a company controlled by the Ministry for the Economy and Finance.

All transactions with related parties are concluded on normal market terms and conditions.

The following table summarizes the relationships:

Millions of euro	Balance sheet		Income statement	
	Receivables	Payables	Costs	Revenues
	at March 31, 2007		1st Quarter 2007	
Single Buyer	356	1,654	2,633	302
Electricity Services Operator	204	335	-	25
Market Operator	943	468	735	1,542
Italian Post Office	1	77	43	4
Eni	3	114	183	52
Terna	351	347	451	484
Total	1,858	2,995	4,045	2,409

In compliance with the Enel Group's rules of corporate governance, transactions with related parties are carried out in accordance with criteria of procedural and substantive propriety.

With a view to assuring substantive propriety – in order to ensure fairness in transactions with related parties, and to account for the special nature, value or other characteristics of a given transaction – the Board of Directors may ask independent experts to value the assets involved in the transaction and provide financial, legal or technical advice.

The following table shows transactions with associated companies outstanding at March 31, 2007 and carried out during the first three months of 2007.

Millions of euro	Balance sheet		Income statement	
	Receivables	Payables	Costs	Revenues
	at March 31, 2007		1st Quarter 2007	
Cesi	1	7	1	-
LaGeo	28	1	-	1
Other companies	17	-	-	2
Total	46	8	1	3

Contractual commitments and guarantees

The commitments entered into by the Enel Group and the guarantees given to third parties are shown below:

Millions of euro

	at Mar. 31, 2007
Sureties granted to third parties	1,283
Commitments to suppliers for:	
> electricity purchases	4,599
> fuel purchases	29,178
> various supplies	6,632
> tenders	1,884
> other	258
Total	42,551
TOTAL	43,834

Guarantees granted to third parties amounted to €1,283 million and include €775 million in commitments relating to the sale of real estate assets in connection with the regulations that, for a period of six years and six months from July 2004, govern the termination of leases and the related payments. The value of such guarantees is reduced annually by a specified amount.

Commitments for electricity mainly regard imports from France, Switzerland and Germany, which came to €4,599 million at March 31, 2007 and are all related to the 2007-2011 period.

Commitments for the purchase of fuels are determined with reference to the parameters and exchange rates applicable at the end of the period (given that fuel prices vary and are mainly set in foreign currencies). They amounted to €29,178 million at March 31, 2007, of which €11,901 million refer to the period 2007-2011, €10,671 million to the period 2012-2016, €6,406 million to the period 2017-2021 and the remaining €200 million beyond 2021.

Contingent liabilities and assets

On March 21, 2007, the Authority for Electricity and Gas published Resolution no. 66/07 which – following an investigation begun on 2006 – imposed a fine of €11.7 million on Enel Distribuzione for alleged violation of the provisions of a previous resolution (no. 55/2000) which required the company to indicate in its invoices the no-additional-cost payment method among the payment methods available to customers.

Enel is preparing to appeal to the Lombardy Administrative Regional Court requesting that the resolution and the fine imposed be voided, arguing that they are illegal in a number of respects and the amount of the fine imposed is not proportionate.

The resolution issued could lead to a rise in the number of cases brought by customers before justices of the peace seeking compensation for alleged (minimal) damages (there are currently disputes pending but they are small in number).

Design
AReA Identity Architectures - Rome

Publishing service
IMAGE DESIGN - Rome

Copy editing
postScriptum - Rome

Photo
Roberto Caccuri, Agenzia Contrasto for Enel

on the cover:
Italy, Porto Corsini
thermal plant

Printed by
Facciotti - Rome

Printed in June 2007 on re-cycled
Fedrigoni Symbol Freelifa paper



300 copies printed

Publication not for sale

Edited by the External Relations Department

Enel
Società per azioni
Registered office in Rome
137, Viale Regina Margherita
Capital Stock
Euro 6,176,196,279
(at December 31, 2006) fully paid-in
Tax I.D. and Companies' Register
of Rome no. 00811720580
R.E.A. of Rome no. 756032
VAT Code no. 00934061003

