



*Interim Financial Report  
at March 31, 2008*





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# The Enel structure

## Enel SpA

### Sales

Enel Servizio Elettrico  
Enel Energia  
Enel.si  
Vallenergie

### Generation and Energy Management

Enel Produzione  
Enel Trade  
Enel Trade Hungary  
Enel Trade Romania  
Nuove Energie

### Infrastructure and Networks

Enel Distribuzione  
Enel Rete Gas  
Enel Sole  
Deval

### Engineering and Innovation

Enel Produzione

### International

Slovenské elektrárne  
Enel Maritza East 3  
Enel Operations Bulgaria  
Enel North America  
Enel Distribuție Banat  
Enel Distribuție Dobrogea  
Enel Energie  
Blue Line  
Global Power Investment  
Enel Romania  
Enel Servicii Comune  
RusEnergosbyt  
SeverEnergia  
Enel France  
Enel Erelis  
Enelco  
International Windpower  
Wind Parks of Thrace  
International Wind Parks of Thrace

### Iberia and Latin America

Endesa  
Enel Latin America  
Enel Panama  
Enel Fortuna  
Inelec  
Enel Viesgo Generación  
Enel Viesgo Energía  
Enel Unión Fenosa Renovables  
Electra de Viesgo Distribución  
Enel Viesgo Servicios

### Services and Other Activities

Enel Servizi  
Sfera  
Enelpower  
Enel.NewHydro  
Enel.Factor  
Enel.Re

The Interim Financial Report at March 31, 2008 has been prepared in compliance with the IFRS-EU and with Article 154 *ter*, paragraph 5, of Legislative Decree 58 of February 24, 1998.

The recognition and measurement criteria adopted in the Interim Financial Report at March 31, 2008, which have not been audited, are consistent with those used to prepare the consolidated financial statements at December 31, 2007 and the Report on the 1st Quarter of 2007.

In order to facilitate the assessment of the Group's performance and financial position, this Report uses a number of "alternative performance indicators" not envisaged in the IFRS-EU accounting standards. In accordance with recommendation CESR/05-178b published on November 3, 2005, the criteria used to calculate these indicators are as follows:

- > *Gross operating margin*: an indicator of Enel's operating performance, calculated as "Operating income" plus "Depreciation, amortization and impairment losses";
- > *Net financial debt*: an indicator of Enel's financial structure, calculated as the sum of "Long-term loans", "Short-term loans and the current portion of long-term loans" and financial liabilities included in "Other current liabilities", net of "Cash and cash equivalents" and the current and non-current financial assets (financial receivables and securities other than equity investments) included in "Other current assets" and "Other non-current assets";
- > *Net assets held for sale*: calculated as the algebraic sum of "Assets held for sale" and "Liabilities held for sale";
- > *Net capital employed*: calculated as the sum of "Current assets", "Non-current assets" and "Net assets held for sale", net of "Current liabilities" and "Non-current liabilities", excluding the items considered in the definition of net financial debt.

# Summary of results

## Highlights

	1st Quarter	
	2008	2007
<b>Income data</b> (millions of euro)		
Revenues	15,082	9,728
Gross operating margin	3,445	2,332
Operating income	2,337	1,709
Net income before minority interests	1,203	987
Group net income	1,004	943
<b>Financial data</b> (millions of euro)		
Net capital employed	81,978	79,580 <sup>(1)</sup>
Net financial debt	57,072	55,791 <sup>(1)</sup>
Shareholders' equity (including minority interests)	24,906	23,789 <sup>(1)</sup>
Cash flows from operating activities	1,017	1,871
Capital expenditure on tangible and intangible assets	1,171	698
<b>Per share data</b> (euro)		
Group net income per share in circulation at period-end	0.16	0.15
Group shareholders' equity per share in circulation at period-end	3.31	3.17 <sup>(1)</sup>
<b>Operating data</b>		
Net electricity generated by Enel (TWh)	58.0	31.6
Electricity transported on the Enel distribution network (TWh)	98.6	66.1
Electricity sold by Enel (TWh) <sup>(2)</sup>	70.5	43.1
Gas sales to end users (billions of cubic meters)	2.9	1.8
Gas transported (billions of cubic meters)	1.6	1.4
Employees at period-end (no.) <sup>(3)</sup>	73,245	73,500 <sup>(1)</sup>
<b>Market indicators</b>		
Average Brent oil price (\$/bbl)	97.0	57.8
Average price of low-sulfur fuel oil (\$/t) <sup>(4)</sup>	501.4	266.9
Average price of coal (\$/t CIF ARA) <sup>(5)</sup>	138.5	69.9
Average price of gas (Gbpence/therm) <sup>(6)</sup>	52.80	22.40
Average dollar/euro exchange rate	1.498	1.311
Six-month Euribor rate (average for the period)	4.48%	3.94%

(1) At December 31, 2007.

(2) Excluding sales to resellers.

(3) Of which 2,622 at March 31, 2008 (2,614 at December 31, 2007) in units classified as "Held for sale".

(4) Platt's CIF Med index.

(5) API #2 index.

(6) Belgium Zeebrugge index.



In the 1st Quarter of 2008 *revenues* amounted to €15,082 million, up 55.0% on the €9,728 million in the same period of 2007. The increase reflects the consolidation of Endesa as from the 4th Quarter of 2007 and increased revenues on the domestic free market for electricity as a result of increased volumes sold and an increase in the average sales price.

The *gross operating margin* totaled €3,445 million, compared with €2,332 million in the 1st Quarter of 2007, an increase of €1,113 million or 47.7%, which was mainly attributable the growth in the Iberia and Latin America Division as a result of the consolidation of Endesa, as well as the general increase in the margin of the other Group Divisions. These positive developments were only partially affected by the poorer performance of commodity risk management.

*Operating income* in the 1st Quarter of 2008 came to €2,337 million, up €628 million or 36.7%.

*Group net income* was €1,004 million, up 6.5% from the €943 million posted in the first three months of 2007.

*Net financial debt* totaled €57,072 million at March 31, 2008, an increase of €1,281 million compared with December 31, 2007, mainly due to the acquisition of an additional 22.65% of OGK-5 following completion of the public tender offer. At March 31, 2008, the debt/equity ratio was 2.29, compared with 2.35 at the end of 2007.

Group *employees* at March 31, 2008, numbered 73,245, a decline of 255 compared with the 73,500 at the end of 2007, equal to the balance between 628 new hires and 883 terminations.

# Significant events in the 1st Quarter of 2008

## Public tender offer for OGK-5

On March 6, 2008, the number of shares (as verified by the competent bodies) tendered to Enel, acting through its subsidiary Enel Investment Holding (EIH), amounted to 8,012,088,702, equal to 22.65% of the share capital of OGK-5. These shares, together with the 37.15% of OGK-5 already held by EIH before the public tender offer, therefore give EIH a total holding of 59.80% in the company. The price offered in the bid was 4.4275 rubles per share (equal to about €0.12 at the exchange rate prevailing on the acquisition date), for a total of about €993 million. On March 12, 2008, the Enel Board of Directors acknowledged the advanced state of negotiations between EIH and two international financial organizations (the European Bank for Reconstruction and Development and the International Finance Corporation) for the sale to these organizations of a maximum of about 7% of the share capital of OGK-5 held by EIH, at a price equal to that paid in the public tender offer for OGK-5 carried out by EIH. Should an agreement be reached, EIH's stake in OGK-5 would decrease to a minimum of 52.70% (sufficient to ensure effective control of the company and the power to appoint a majority of the members of its board of directors), receiving up to €305 million in payment. At March 31, 2008, as the organizational processes concerning changes in the governance of the company necessary for defining control had not yet been completed, it is accounted for using the equity method.

## Sale of Endesa and Enel assets under the agreement with E.On

On March 18, 2008, Enel, Acciona and E.On reached an agreement to modify part of the assets held by Endesa to be sold to E.On under the contract of April 2, 2007. Specifically, the thermal power stations in Spain at Foix (fuel oil, with an installed capacity of 520 MW which includes a project under development for the construction of an 800 MW combined cycle plant) and Besos 3 (combined cycle, with an installed capacity of 388 MW) were replaced by the thermal plant at Tarragona (combined cycle, with an installed capacity of 395 MW).

On March 27, 2008, the valuation of the Endesa and Enel assets to be sold to E.On, as determined by the investment banks charged with the appraisal, was disclosed in accordance with the agreement of April 2, 2007, as subsequently amended.

As determined by the investment banks, the total value of the assets to be sold to E.On, including minority stakes and net financial debt, is €13,525 million, of which €11,500 million in Endesa assets and €2,025 million in Enel assets. The above valuations do not include the disposal of drawing rights for electricity of nuclear origin (450 MW for 10 years), envisaged by the agreement of April 2, 2007, as the process for their valuation has been extended and is still under way.

On March 28, 2008, the board of directors of E.On formally notified the company's intention to acquire the assets. The disposal of the Endesa assets is in any case subject to approval by the Endesa shareholders' meeting and the issuing of the necessary administrative authorizations.

For Enel, the completion of the transaction should reduce consolidated net financial debt by about €8.4 billion, taking account of the deconsolidation of the debt pertaining to the assets involved in the disposal.

## Agreement with the Region of Liguria

On March 21, 2008, Enel and the Region of Liguria signed a protocol of understanding regarding joint initiatives for the development of renewable energy resources in the port and airport area of Genoa. The protocol will run until November 30, 2012, unless the parties decide to extend or renew it. With this initiative, Enel and the Region of Liguria agree to define the operational and financial tools necessary to develop wind and photovoltaic systems for the generation of electricity with a total capacity of about 22 MW.

# Subsequent events and outlook

## Subsequent events

### Cooperation agreement with EGAS

On April 9, 2008, Enel and the Egyptian Natural Gas Holding Company (EGAS) signed a cooperation agreement for the joint development of the upstream gas sector, focusing on liquefied gas and the sale of natural gas. Under the terms of the accord, Enel will also share its international experience with EGAS to assess investment opportunities to improve the efficiency of Egyptian generation plants.

### Agreement with Dolomiti Energia

On April 24, 2008, in implementation of the memorandum of understanding signed on November 13, 2007, Enel Produzione and Dolomiti Energia SpA signed an investment agreement to jointly develop the hydroelectric power sector in the Autonomous Province of Trento. Under the agreement, Enel Produzione will sell to Dolomiti Energia 51% of a newly incorporated company to be named Hydro Dolomiti Enel Srl. Before the sale, Enel Produzione will contribute its hydroelectric generation operations in the Province of Trento to the newco and Enel Rete Gas will transfer 100% of Avisio Energia SpA, which distributes natural gas in 32 municipalities in the Province of Trento.

The price for the 51% stake in Hydro Dolomiti Enel was provisionally set at €562.7 million and will be paid in full at the time of the sale, net of the corresponding share of the net financial position of the operations contributed, as well as the estimated cash flows for the unit between January 1, 2008 and the effective date of the transfer of the operations. This amount will later be adjusted based on the mechanism established in the accord.

Completion of the transaction is subject to the definitive official extension, following a request by Enel Produzione, of the concessions for major hydroelectric derivations that will be contributed to the Hydro Dolomiti Enel, which are currently scheduled to expire on December 31, 2010, by at least 10 years in order to enable the parties to implement fully the business plan they have developed. The sale of the 51% interest in Hydro Dolomiti Enel to Dolomiti Energia is also subject to receipt of approval of the transaction from the Italian Competition Authority.

The agreement also gives Dolomiti Energia a call option to acquire an additional interest in Hydro Dolomiti Enel from Enel Produzione. The option is to be exercised by December 31, 2020, subject to the condition that the duration of the concessions for the major hydroelectric derivations held by the unit being contributed to the newco is extended.

In view of the governance arrangements established in the shareholders' agreements, until December 31, 2010, Enel Produzione will exercise a dominant influence over Hydro Dolomiti Enel and will therefore consolidate the company on a full line-by-line basis until that date.

### Acquisition of Electrica Muntenia Sud (EMS)

On April 25, 2008, as part of the privatization of Electrica Muntenia Sud and in accordance with the privatization contract signed on June 11, 2007, Enel acquired

50% of EMS from Electrica for €395 million. At the same time, the shareholders' meeting of EMS approved a capital increase that was subscribed by Enel in the amount of €425 million. Depending on whether EMS's minority shareholder exercises the right to subscribe a pro rata share of the capital increase within 30 days of the shareholders' meeting, Enel's final stake will be either 67.5% or 64.4% of EMS. EMS is the exclusive electricity distributor for industrial and residential customers in Bucharest, the country's main urban area, and the neighboring counties of Ilfov and Giurgiu.

### Agreements signed in China for the reduction of greenhouse gases

On May 5, 2008, Enel signed two cooperation agreements in Beijing for the abatement of greenhouse gas emissions. The first agreement consists of a memorandum of understanding between Enel, the Ministry of Science and Technology of the People's Republic of China and the Italy's Ministry for the Environment. The accord will enable Enel to collaborate on research and development activities to promote the use of clean coal technologies in China, leveraging the experience gained in Italy at the Torrefaldaliga Nord plant and the demonstration projects now under way on the implementation of CO<sub>2</sub> capture and sequestration techniques. The second agreement is a contract between Enel and the Wuhan Iron & Steel Group for the acquisition of emissions permits originated through the implementation of five energy efficiency projects that will reduce CO<sub>2</sub> emissions by 11.45 million metric tons between 2008 and 2012. The emissions reductions obtained through this agreement have a value of about €150 million.

### Disposal of an interest in OGK-5

On May 7, 2008, Enel Investment Holding and the European Bank for Reconstruction and Development (EBRD) reached agreement for EIH to sell the EBRD a stake of about 4.1% of OGK-5 for about €175 million at current exchange rates.

## Outlook

With the completion of the strategy of international growth through major acquisitions, Enel has been transformed into an integrated energy multinational that is one of Europe's leading utilities. The size achieved represents the foundation for developing strategic continuity for the Group, and Enel is already working on integrating and achieving organic growth at the new acquisitions and pursuing technological excellence and addressing environmental issues. The consolidation of our international activities and the development and efficiency initiatives launched by the operating Divisions will also have a positive impact in 2008, improving Group performance even further. In addition, the operating cash flows generated by the companies acquired and by the Enel Group as a whole, as well as portfolio optimization initiatives, will improve the Group's financial position.

# Regulatory and rate issues

## Long-term electricity import contracts

Enel has a contract for the import of electricity with Atel (on the Swiss border, expiring on December 31, 2011). The power imported under the contract with Atel is sold to the Single Buyer at a set price and is used to supply the enhanced protection market.

For 2008, with a decree of December 18, 2007, the Minister for Economic Development confirmed the capacity reserve on the Italian-Swiss border with regard to the contract with Atel and set a price of €68/MWh for the 1st Quarter of 2008, to be updated for subsequent quarters in accordance with the criteria set by the Authority for Electricity and Gas, which confirmed the procedures in force for 2007 with Resolution no. 329/07. The price for the 2nd Quarter of 2008 was set at €70.09/MWh.

## Sales Division

### Electricity

#### "Social rates" decree

An interministerial decree was issued on December 28, 2007 establishing the criteria and procedures for applying the new social rates for underprivileged residential customers or residential customers with "live-saving" electronic medical equipment. The income threshold for underprivileged residential customers to participate in the system was set at €7,500 based on the Financial Situation Indicator. The compensation system will be managed by municipal governments, which must evaluate and grant applications from customers who satisfy the requirements. The Authority for Electricity and Gas (Authority) has opened a consultation to establish the implementing procedures for that portion of the decree. The increased costs resulting from the compensation mechanism will be covered by a specific rate component applicable to all users.

#### Liberalization of electricity sales

On June 18, 2007, the Government adopted Decree Law 73/07 (subsequently ratified with Law 125/07, which came into force on August 15, 2007) in the run up to the opening of the electricity market to residential customers (which took place on July 1, 2007). The measure establishes:

- > the obligation for corporate separation between distribution and sales activities for distribution companies with more than 100,000 customers;
- > provisions to ensure non-discriminatory access to metering data;
- > provisions to ensure the supply of electricity by distribution companies, or related sales companies, to residential customers and small businesses (businesses with fewer than 50 employees and annual revenues of less than €10 million) that do not opt for the free market (enhanced protection).  
For these customers, the provisioning of electricity shall be guaranteed by the Single Buyer. The standard conditions and reference prices for the service are determined by the Authority;
- > the presence of a safeguard supplier, selected by tender, for customers not

eligible for the above service (other businesses) that do not opt for the free market or that should find themselves without a supplier. Until the completion of the tender (the rules for which will be established in a decree of the Minister for Economic Development), these customers will temporarily be provided service by distribution or associated sales companies without any intermediation by the Single Buyer.

In accordance with the provisions specified above, Enel Distribuzione and Deval no longer directly provide service to the customers of the former regulated market. Supply to customers that do not exercise the option to receive service on the free market and that are eligible for enhanced protection will be handled by a special-purpose company. On September 13, 2007, Enel Servizio Elettrico SpA was formed for this purpose. The company began operation on January 1, 2008 to provide electricity to customers eligible for the enhanced protection mechanism and connected to Enel Distribuzione's networks. Enhanced protection customers connected to Deval's networks will be supplied electricity by Vallenergie, which was formed for this purpose on October 1, 2007 and also began operation on January 1, 2008. These companies will continue to obtain power from the Single Buyer in order to serve these customers.

The decree of the Minister for Economic Development of November 23, 2007, and the subsequent decree of February 8, 2008, set out provisions governing the procedures for allocating safeguard services through auction. In particular, starting May 1, 2008, the safeguard services supplier will be chosen through auctions held on a geographical basis (the Authority has identified six geographic areas) at a price established by the auction. Initially, the auctions will cover the period from May to December 2008; thereafter, they will cover two-year periods. Until May 1, 2008, safeguard services will continue to be managed by the distribution companies or associated companies, to which the CIP 6 and physical import rights for customers eligible for the safeguard market have also been transferred. On February 22, 2008, the Single Buyer published the results of the auctions to select the safeguard service providers for the May 1 – December 31, 2008 period. For areas d) Tuscany, Umbria, Marche and Sardinia, e) Lazio, Abruzzo and Molise and f) Campania, Puglia, Basilicata, Calabria and Sicily, the safeguard provider will be Enel Energia, which bid a premium of €5/MWh on the Power Exchange price. During the reference period, the Authority also adopted a number of measures to complete the regulatory framework for the retail network. In particular, with the Resolution ARG/elt (general regulatory activities/electricity sector) no. 4/08, the Authority introduced rules governing the managing of delinquent end users to safeguard the interests of the sales companies by permitting the suspension of supply to delinquent customers in the free market as well. In addition, the resolution allows operators to assign their receivables in respect of the last two unpaid invoices of the customer to the new seller.

#### **Rates and rate updates**

Finally, with Resolution no. 352/07, the Authority established the pricing terms for the provision of the enhanced protection service for the 1st Quarter of 2008, increasing the average charge to end users by about 2.4% above that set for the preceding quarter. Specifically, the Authority raised the rate component covering the cost of electricity and ancillary services (PED) by 5.3% (up €5.1/MWh) and lowered the UC1 component by about 30% (down €1.2/MWh), providing for it to be maintained throughout 2008 in order to cover deficits relating to 2007. Subsequently, with Resolutions ARG/elt no. 37/08 and no. 38/08, the Authority set rates for the enhanced protection service for the 2nd Quarter of 2008,

increasing the charge to end users by an average of about 3.19% compared with the previous quarter.

Specifically, the Authority raised the PED component by 6.7% and the UC1 component by about 50% and reduced the A3 component (covering charges for the promotion of renewable energy resources) and A6 (covering stranded costs) by about 16% and 50%.

With Resolution no. 349/07, the Authority had established the value of the marketing cost component (PCV) for enhanced protection customers and introduced mechanisms to allow electricity companies to recover costs incurred. With Resolution ARG/elt no. 25/08, the Authority established a compensation mechanism for 2008 for companies selling electricity under the enhanced protection system to recover cost and revenue imbalances exceeding 5%. In addition, mechanisms will be established to ensure coverage of fixed costs for operators in the event customers leave the enhanced protection system.

### **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.

On October 30, 2007, despite having filed an appeal of the resolution with the Lombardy Regional Administrative Court on May 22, 2007, Enel Distribuzione paid the fine, reserving the right to claim reimbursement of the amount paid in the event the Court finds in its favor.

With ruling no. 321/08 of February 13, 2008, the Lombardy Regional Administrative Court granted Enel's appeal and voided Resolution no. 66/07. In its ruling, the Court said there was no requirement to publish information on free payment options in invoices and absolved Enel Distribuzione of any charges of misconduct. With Resolution no. 177/07 the Authority initiated a fact-finding investigation of a number of irregularities found in the quantification of electricity drawn from the national transmission network in 2005, 2006 and the first few months of 2007. The deadline for the completion of the investigation was initially set for October 31, 2007, but was extended to June 30, 2008, with Resolution no. 336/07. Pending closure of the energy balances for 2005 and 2006, the Authority issued Resolution no. 168/07 suspending the deadlines set in Resolution no. 95/07 on the closure of equalization for those years until a subsequent measure is issued.

On July 19, 2007, the Competition Authority initiated a proceeding for abuse of a dominant position against Enel SpA and Enel Distribuzione SpA. According to the Competition Authority, Enel Distribuzione made the conclusion of new electricity supply contracts conditional upon payment by the new customers of the arrears of previous customers. On August 9, Enel SpA and Enel Distribuzione, exercising the option envisaged by Law 248/06, submitted undertakings to the Competition Authority to cease any anticompetitive conduct that the inquiry may find. On October 18, the Competition Authority, finding the undertakings sufficient to remove the restrictive conduct, closed the proceedings without imposing sanctions. In this regard, on January 22, 2008, Enel SpA and Enel Distribuzione presented the final report on the undertakings made and the measures adopted. Following a further request for clarification and information from the Competition Authority, the measures were supplemented with the addition of information in invoices on the rapid repayment procedure. With a



measure of March 11, 2008, the Competition Authority determined that the notice in the invoice was sufficient to discharge the disclosure obligation.

On February 21, 2008, the Competition Authority opened investigation PS\91 concerning improper commercial practices against four Enel Group companies: Enel SpA, Enel Energia SpA, Enel Servizio Elettrico SpA and Enel Distribuzione SpA. The proceeding regards the transfer of customers from the enhanced protection system to Enel Energia SpA through the activation of connections that customers had not requested as well as the use of an advertising campaign that allegedly obscured the distinction between the enhanced protection market and the free market.

On March 28, 2008, Enel submitted a number of undertakings to the Competition Authority that would eliminate the alleged anticompetitive practices in order to obtain the closure of the proceeding without a finding of any infraction.

On March 18, 2008, another proceeding (PS\1) was initiated with regard to allegedly improper commercial practices on the part of Enel Energia SpA and eight non-Group companies. The practices regard the transparency of the notes to the offers "Energia Sicura", "Energia Pura Casa", "Energia Pura Bioraria" and "Energia Sicura Gas". As regards the "Energia Pura Bioraria" promotion in particular, the Competition Authority argues that there is a lack of clarity concerning the increased charges for electricity use during the daytime.

The proceedings are scheduled to be completed by July 20 and August 15, 2008, respectively.

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

The decree of the Minister for Economic Development of December 15, 2007 confirmed for 2008 the sale of CIP 6 energy on the Power Exchange by the Electricity Services Operator (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 sets a price of €68/MWh for the 1st Quarter of 2008 with a total quantity assigned of 4,900 MW, of which 75% to the free and safeguard markets (1,148 MW to Enel Energia) and the remaining portion to the Single Buyer for supplying customers in the enhanced protection market. With Resolution no. 311/07, the Authority confirmed that the procedures in effect in 2007 for updating the price will also apply in 2008. For the 2nd Quarter of 2008, the CIP 6 price was set at €68.23/MWh.

## **Gas**

#### **Rates and rate updates**

With Resolutions no. 346/07 and ARG/gas no. 39/08, the Authority for Electricity and Gas (Authority) updated the rates for natural gas supplies for the 1st and 2nd Quarters of 2008 in accordance with the method introduced in Resolution no. 134/06, raising the raw materials component by 7.2% and 4.2% compared with the previous quarter due to the increase in the international price for oil products.

#### **Inquiries and fact-finding investigations**

With Resolution no. 300/07 of December 4, 2007, the Authority opened a formal inquiry against 7 distributors and 36 sellers, including Enel Energia. It alleged violations concerning the incorrect application of the coefficients for correcting the volumes consumed by end customers relating to physical service delivery conditions (temperature and altitude). The allegations regarding Enel Energia relate to two areas with a very limited number of customers served.

The formal inquiry will be completed by July 31, 2008 and any final measures will be adopted by October 31, 2008.

The proceedings PS\1 and PS\91 concerning improper commercial practices mentioned in the comments on electricity sales activities also involve the advertising campaign and transfer of customers in the gas sector.

#### **Supplier of last resort**

With Resolution no. 243/07, the Authority published the ranking of bids, which identifies Enel Energia as supplier of last resort for the 2007/2008 gas year for a maximum quantity of gas totaling 30 million cubic meters in the Emilia Romagna, Liguria, Tuscany, Umbria, Marche and upper Lazio macro-area.

## **Generation and Energy Management Division**

### **“Ancillary Services Market” (ASM)**

With Resolution no. 308/07 the Authority for Electricity and Gas (Authority) approved Terna’s proposal concerning the new competitive procedures for concluding forward contracts on the ASM related to 2008. Between January 31 and March 4, 2008, Terna concluded contracts for the 2nd Quarter of 2008. Enel Produzione was allocated power for the following products: “in service”, “secondary reserve” and “tertiary reserve”.

In compliance with Resolution no. 165/06, the Authority has set up a working group consisting of institutional representatives and market operators to prepare an overall reform of the ASM starting from 2009 in order to contain the cost of ancillary services for end users.

### **Single Buyer Auctions**

The Single Buyer held further auctions for bilateral contracts with base-load profiles (that is, with a constant profile across all the hours in a year) on September 19, December 12 and December 20, 2007 in order to cover requirements for each year of the three-year period from 2008 through 2010. Enel Produzione was allocated 260 MW for 2008, 550 MW for 2009 and 515 MW for 2010. On January 3 and 31, 2008, the Single Buyer held additional auctions for two-way contracts for differences for the period February-December 2008 in which Enel Produzione did not receive any allocation.

### **Temporary measures concerning the reduction of gas consumption**

On March 12, 2008, the requirement to maximize gas imports as from November 5, 2007, in compliance with the decree of the Ministry for Economic Development of August 30, 2007, was revoked.

### **CIP 6 charges, revision of avoided fuel cost (AFC)**

On November 15, 2006, with Resolution no. 249/06, the Authority for Electricity and Gas (Authority) had introduced a new mechanism for updating the avoided fuel cost (AFC) paid to CIP 6 plants that significantly reduced the remuneration of such plants. On May 3, 2007, following an appeal by a number of operators, the resolution was voided by the Regional Administrative Court. The Authority then appealed the ruling to the Council of State, which granted the appeal and restored the resolution on January 22, 2008.

### **Blackout of June 26, 2003**

Following the partial blackout of June 26, 2003, the Authority for Electricity and Gas (Authority) initiated a fact-finding investigation with Resolution no. 72/03 to determine its causes and any liability. Following the fine paid by Enel, the investigation was closed in January 2005 with Resolution no. 10/05.

In addition, with Resolutions no. 10/05 and no. 11/05 the Authority established the reimbursement for the reserve service for the 1st Quarter of 2003, excluding Enel Produzione and ordering GRTN (now the ESO) to not reimburse Enel.

On July 21, 2005, the Regional Administrative Court granted Enel's appeal, voiding the portion of Resolutions no. 10/05 and no. 11/05 where GRTN is ordered to not reimburse Enel, but the Authority appealed the ruling. With Decision no. 304/08, the Council of State granted the Authority's appeal, which had argued that the purpose of the measure adopted with Resolution no. 11/05 was to ask GRTN to assess the operation of Enel Produzione's plants in the 1st Half of 2003, not to impose sanctions or prescribe action. In order to assess the scope of the Council of State's decision, it is necessary to wait for publication of the full ruling.

In the Autumn of 2007, the ESO, pending the ruling of the Council of State and following a formal request, reimbursed Enel Produzione for the reserve in the 1st Quarter of 2003 (about €76 million). The ESO made the payment while reserving the right to request reimbursement in the event the Authority's appeal was upheld.

### **Incentives for renewable energy under Legislative Decree 387/03**

Article 11 of the Decree of the Ministry for Productive Activities (MPA) of October 24, 2005, establishes that the Authority for Electricity and Gas (Authority) shall guarantee, at the request of the generator of electricity from renewables pursuant to Legislative Decree 387/03, the price for sale by the Single Buyer to distributors as determined in Article 30, points a), b) and c) of Resolution no. 5/04.

On January 20, 2006, the Authority appealed the MPA decree, arguing that the sale price should be defined solely on the basis of Article 30, point a) of Resolution no. 5/04.

On January 22, 2008, the Council of State partially upheld the Authority's appeal, voiding Article 11, paragraph 5, of the MPA decree, which established the procedures for the withdrawal of the electricity referred to in Resolution no. 34/05. Resolution no. 280/07 of the Authority amended, as from January 1, 2008, the withdrawal price for electricity generated from renewables pursuant to Legislative Decree 387/03, basing it on prices on the Power Exchange and no longer on the sale price of the Single Buyer.

### **Emissions Trading**

As regards the 2005-2007 national allocation plan, Enel Produzione covered the deficit resulting from the final calculation by acquiring allowances for 4.6 million metric tons in the 1st Quarter of 2008.

With regard to the allocation of allowances for the 2008-2012 period, the National Committee for the management and implementation of Directive 2003/87/EC, taking due account of the indications of the European Commission, adopted the final decision, publishing it on the website of the Ministry for the Environment. Enel was allocated an average annual CO<sub>2</sub> allowance of about 33.6 million metric tons for existing plants, to which should be added further allowances from the

reserve earmarked for new entrants, estimated at an average of about 3 million metric tons per year.

In light of these allocations, Enel forecasts a CO<sub>2</sub> allowance deficit of 10 million metric tons per year for the 2008-2012 period which will, in any event, be covered by existing supply strategies. A significant contribution to these strategies will come from the use of credits under the clean development mechanism, which is permitted for thermal generation in the amount of 19.3% of allocations.

As regards the 2008-2012 national allocation plan, in the 1st Quarter of 2008 emissions by Enel Produzione came to 11.8 million metric tons. Considering allowances allocated under the national allocation plan, calculated on a pro rata basis, of 12.4 million metric tons for the period, at March 31, 2008, there was a surplus of 0.6 million metric tons.

### Developments in support for electricity generation from renewables

The 2008 Finance Act provided for an annual increase of 0.75% for the years 2008 to 2013 in the requirement to generate/import electricity from renewable sources. As a result, the obligation for 2008 amounts to 3.8% of the conventional electricity generated/imported in the preceding year.

On March 5, 2008, the Electricity Services Operator (ESO) announced the reference price for green certificates in 2008: €112.88/MWh (net of VAT). The price paid to generators using renewables, in application of the provisions of the 2008 Finance Act, is equal to the difference between the reference price (set at €180/MWh initially) and the annual average sale price of electricity, as established by the Authority for Electricity and Gas in implementation of Article 13, paragraph 3, of Legislative Decree 387 of December 29, 2003, registered in 2007.

The reference price for 2007, calculated on the basis of the existing procedure, namely the difference between the average cost of electricity generated by the plants referred to in CIP measure no. 6/92 acquired by the ESO in 2007, and the average revenue generated by the sale of that electricity in 2007, was equal to €125.13/MWh. In implementation of Article 7 of Legislative Decree 387/2003, on April 11, 2008, the Minister for Economic Development, in agreement with the Minister for the Environment, issued a ministerial decree that establishes the criteria and procedures for encouraging the generation of electricity using thermal solar systems. The decree provides for the application of a fixed incentive rate on top of the sale price of the electricity generated. The additional component decreases as the share of output not attributable to solar power increases. The decree also allows, within specified limits, the cumulation of the incentive component and public capital grants or interest rate subsidies. For Enel, the new measure could be applied for the hybrid plant to be built at Priolo (Siracusa) using an innovative solar technology developed by Enea, integrated with one of the two existing combined cycle units, which will use the steam produced by the solar system.

## Infrastructure and Networks Division

### Electricity

#### Administrative and accounting unbundling

With Resolution no. 11/07, the Authority for Electricity and Gas (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 management that operates essential infrastructures. Specifically, it provides for the functional separation of the distribution of electricity and gas, with very tight restrictions that raise corporate governance issues. Enel filed an appeal of the resolution (limited to Article 11 concerning 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.

The Authority, with Resolution no. 253/07 of October 4, 2007, amending Resolution no. 11/07, safeguarded the decision-making autonomy of the distribution company from the vertically integrated corporation in its operating, management and network development decisions, albeit leaving the holding company and, hence, shareholders the possibility of control over such activities. Enel subsequently withdrew its appeal of Resolution no. 11/07. Publication by the Authority of the guidelines for operators concerning accounting schedules and actions to be taken is pending.

#### Transport rates: new regulatory period

With Resolution no. 348 of December 29, 2007, the Authority, following a consultation begun in August, set the new transmission, distribution and metering rates for the 2008-2011 regulatory period.

The weighted average cost of capital (WACC) for distribution services was increased from 6.8% for the second regulatory period to 7%, while that for metering services was reduced from 8.4% to 7.2% in relation to the consolidation of the regulated nature of the sector.

The X-factor, applied only to the rate component covering operating costs, was set at 1.9% for distribution services and at 5% for metering, so as to allow the higher efficiency gains achieved by the companies during the second regulatory period to be passed on to the end user within eight and six years, respectively.

The rules envisage incentives, using differentiated WACCs (+2%) and for a minimum of eight years, for specific types of investments in the distribution network, such as those relating to the construction of new transformer stations, investments in replacing existing transformers in MV/LV transformer substations with new low-loss transformers, and smart grids.

The Authority has also established that the electricity withdrawals to power auxiliary generation services, including withdrawals of pumping stations, in the event the capacity withdrawn does not exceed 10% of that declared, are exempt from payment of transport costs, system charges and other fees paid by end users. Pending a complete review of the regulations on the delivery of connection services, the Authority has also reorganized the rules concerning prices for connection to the electricity networks, applying a price cap to connection contributions and fixed fees.

With Resolution no. 333 of December 21, 2007, the Authority established new rules concerning the quality of electricity services for the 2008-2011 regulatory period. Specifically, with regard to service continuity, it introduced rules governing the annual average number of long and short interruptions and confirmed those relating to the cumulative duration of interruptions.

With Resolution ARG/elt no. 30/08 of March 13, 2008, the Authority set out the

new procedure for calculating equalization payments. More specifically, as regards the equalization of commercial costs in the distribution segment, the Authority established that equalization will apply to imbalances between revenues and costs exceeding 5%. As regards equalization of metering, the revenues to be equalized will also reflect depreciation on digital meters in addition to the return on capital employed, as in the second regulatory period, thereby ensuring recognition of investments for the companies that actually carried them out.

### Energy efficiency

In February 2008, the legislative decree implementing Directive 2006/32/EC on energy end use and energy services was issued. Among other things, it extends the obligation for electricity and gas distributors to retail electricity sales companies, in compliance with the principle of conformity with the general objectives and existing requirements.

In the 1st Quarter of 2008, the Authority issued a number of resolutions. The measure of most direct interest for Enel was Energy Efficiency Resolution (EEN) no. 1/08 of February 26, 2008, which determines the specific primary energy saving targets for 2008 for electricity and natural gas distributors, pursuant to the ministerial decrees of July 20, 2004, as amended by the ministerial decree of December 21, 2007. The overall target for Enel was set at 1.2 million tons of oil equivalent (toe), equal to 53% of the total requirement. The other resolutions regarded the updating of a number of technical parameters associated with the white certificate mechanism and the quantification of energy savings.

On February 29, the Authority published a consultation document concerning “the determination of the minimum size for energy savings projects implemented by new distributors required to do so and entities required to appoint an energy manager”.

Finally, with Resolution no. 345/07, the Authority confirmed the rate contribution of €100/toe for the achievement of the 2008 targets.

### Inquiries and fact-finding investigations

With Resolution VIS (supervision, inquiries, proceedings and sanctions) no. 12/08 the Authority initiated a formal inquiry into Enel Distribuzione concerning delays in connecting generation plants to networks. The inquiry was begun following the closure, with Resolution VIS no. 8/08, of the fact-finding investigation into the provision of grid connection services for generation plants by distribution companies, which, on the basis of reports from operators and sector associations, found delays by Enel Distribuzione in sending quotes and executing works for connecting new generation plants. The inquiry is scheduled to be completed in October 2008.

## Gas

### Service quality in gas distribution and metering

The Authority for Electricity and Gas (Authority) with Resolution ARG/gas no. 6/08 specified the incentives for safety improvements in the distribution of natural gas. Those incentives were determined on the basis of the activity of the distributors in 2006; in the 1st Quarter of 2008 Enel Rete Gas received incentives amounting to €1.2 million.

The Authority also initiated the first consultation concerning the technical and commercial quality of gas distribution and metering in the third regulatory period. The objectives of the document include encouraging checks of meters that have

### Rates and rate updates

With Resolution no. 261/07, the Authority provisionally approved the rates proposed by Enel Rete Gas (and other operators) for gas year 2007-2008, reserving the right to make subsequent determinations in compliance with the Council of State's decisions nos. 2242/07, 2243/07 and 3476/07, which are more favorable to operators. Resolution no. 241/07 provided for an increase in the transport service component in the general supply terms and conditions for natural gas.

On February 27, 2008, the Authority began the first consultation to set distribution and metering rates for the third regulatory period. Specifically, the Authority proposed using 2006 as the reference year for calculating operating costs and adopting a replacement cost method (MEAV) to calculate capital employed for companies that do not have full data on the stratification of assets. As envisaged for the electricity sector, the X-factor will only be applied to operating costs. The second consultation is planned for May 2008 and the final measure will be adopted in July 2008. The new rates will enter force as from January 1, 2009, as a result of the Authority's proposal to shift from gas years to calendar years.

## Iberia and Latin America

### Spain

#### Decree Law 11/07

On December 7, 2007 the Spanish government issued an urgent decree to prevent market distortion and discrimination between energy trading mechanisms. To this end, for the period from 2008 to 2012, the measure reduces the remuneration of generation activity in reflection of the internalization of the value of the CO<sub>2</sub> allowances granted free of charge under the national allocation plan. Subsequent measures will specify the detailed procedures.

#### Ministerial Order 3860/07

On December 29, 2007, the Ministry of Industry published Ministerial Order 3860/07 concerning electricity rates for 2008 and a number of significant aspects of the Spanish electricity market, including:

- > the *ex ante* specification of the maximum rate deficit for 2008 at about €4,750 million, with a ceiling for the 1st Quarter of 2008 of €1.2 billion;
- > the specification of the maximum revenues available to remunerate plants entitled to the short-term capacity payment, equal to €80 million in 2008. As regards long-term capacity payments, plants that entered service between 1998 and 2007 will receive an annual capacity payment of €20,000/MW, while plants that entered service after 2007 will receive an annual payment of between €13,000 and €28,000/MW depending on the system coverage index;
- > the updating of the regulated rate and the premium for certain plants operating under the special regime (cogeneration and residual gas plants);
- > the establishment of an annual premium of €3,870/MW to be paid for 10 years to coal-fired plants that have invested in desulfurizers.



### Royal Decree 222/08

On February 15, 2008, the Ministry of Industry published Royal Decree 222 concerning the new pricing regime for distribution activities, confirming and completing the regulatory framework envisaged in Ministerial Order 3860/07. The decree specifies the first four-year regulatory period starting in 2009. At the beginning of each four-year period, the value of recognized reference revenues is calculated for each distribution company in relation to the return on capital employed, depreciation, operating costs and other parameters, including inflation. The annual remuneration of each company will be equal to recognized revenues for the previous year adjusted to take account of targets for service quality, the reduction of losses and the increase in activity and investment by each distributor. The decree also adjusted (with retroactive effect for October-December 2007) the amount of the premium for certain special regime plants (cogeneration and biomass).

The premiums for 2008 initially set in Ministerial Order 3860 (including those for wind and hydro plants) were also updated with retroactive effect from January 1, 2008.

### Ministerial Order 694/08

On March 15, 2008, the Ministry of Industry published Ministerial Order 694/08 concerning the procedures for the auctions to allocate rate deficit coverage rights in order to finance *ex ante* the deficit recognized in 2007 and subsequent years. The auctions will be run by the CNE, Spain's electricity and gas authority.

### Antitrust proceedings

On April 4, 2008, the Comisión Nacional de la Competencia (CNC) notified Electra de Viesgo Distribución of the findings of the inquiry initiated on May 3, 2007, following a complaint from Centrica concerning alleged abuse of a dominant position.

The CNC argues that Electra de Viesgo Distribución hindered the liberalization of the market by unjustifiably restricting the access of sales companies to its database to acquire information needed to formulate offers in the free market. With the notification, the CNC transmitted the inquiry documentation to the Consejo Nacional de la Competencia for a final decision, which is expected to be issued by the end of May unless the deadline is extended.

Still pending before the Audiencia Nacional is Enel Viesgo Generación's appeal against the ruling of the Tribunal de Defensa de la Competencia of December 29, 2006, with which the company was fined €2.5 million for abuse of a dominant position in the technical restraints market. Payment of the fine has been suspended.

### Emissions Trading

On February 26, 2007, the European Commission approved the CO<sub>2</sub> allowance allocation plan for 2008-2012 on the condition that a number of changes be made, including the inclusion of the full list of plants and related allocations. With Decree 3420 of November 14, 2007, the Spanish government, responding to Commission requests, gave final approval to Spain's national allocation plan for 2008-2012, detailing the allowances granted to each plant.

In the 1st Quarter of 2008, emissions produced by Enel Viesgo Generación amounted to 0.5 million metric tons. Considering allowances granted under the national allocation plan in the amount of 0.5 million metric tons, calculated on a pro rata basis for the period, allowances acquired in the first quarter (0.1 million metric tons) and the surplus at the start of the year (0.7 million metric



tons), the residual surplus at March 31, 2008 came to 0.8 million metric tons. In the 1st Quarter of 2008, the estimated emissions produced by Endesa amounted to about 11.4 million metric tons. Allowances granted under the national allocation plan, calculated on a pro rata basis for the period, amounted to 7.4 million metric tons. The resulting deficit of about 4.0 million metric tons is entirely covered through the Emissions Trading Scheme mechanisms.

## International

### France

#### Regulatory and rate issues

On February 22, 2008, despite the decision of the Constitutional Council of November 30, 2007, according to which new customers would not be entitled to the “return rate” (the “TARTAM”, under which customers on the free market can return to purchase electricity under the regulated regime at a premium of about 20% over the historic rate), an amendment to the housing law granted entitlement to the rate regime for new connections until 2010.

In the 1st Quarter of 2008, the Commission de régulation de l’énergie (CRE) organized a consultation on network rates that provides for an extension of the regulatory asset base.

### Slovakia

#### New market rules

On July 4, 2007, the Slovakian government approved a decision concerning the new market rules as a consequence of the liberalization on July 1, 2007. In particular, the measure calls for the application, beginning on January 1, 2008, of a surcharge equal to the rate component paid by end users to cover the system services (about €10/MWh in 2007) on the electricity generated in Slovakia and exported. The Slovakian regulator URSO has said that it wants to eliminate the measure by 2009 and remove any financial effects for electricity exported for balancing purposes for must-run plants already in 2008.

#### Energy act

On February 14, 2008, the law was approved, incorporating most of the comments submitted by Slovenské elektrárne, which regarded the security of supply, emergencies, the role of the regulator and the definition of operators with a dominant position.

### Russia

#### Regulatory and rate issues

As part of the gradual opening of the market undertaken by the Russian government, the liberalized share of electricity will be sold through an organized day-ahead market with prices reflecting the position of the generating company in the grid (nodal pricing). Beginning in 2008, the portion of power generation still sold under the administered price system has shifted from a cost-plus mechanism to a price cap in order to spur generators to increase efficiency. The indexation mechanism published by the Federal Tariff Office in December 2006 provides

for fuel costs to be updated on the basis of price indicators for each fuel type, while other costs will be updated on the basis of Russian inflation. The rates for 2008, which were published in December 2007, are in line with this approach.

The liberalization of the gas market, which began in November 2006, envisages the gradual convergence of regulated gas prices to the level of the European net-back price.

Heating rates continue to be set using a cost-plus mechanism that does not ensure the profitability of the business.

As from January 9, 2008, free prices on the wholesale electricity market are subject to a price cap in the event of excessive price increases. The measure, which was originally scheduled to expire on March 31, 2008, was recently extended by the Administrator of Trading System.

## Greece

### Tenders for new capacity

On February 28, 2008, following the positive outcome of the complaint brought at the EU level by third parties and the consequent decision not to open an infringement proceeding against Greece, the Hellenic Transmission System Operator notified Enelco that it had been awarded the contract for new capacity to be built in Livadia.

However, the formal award is subject to approval by the Greek supervisory authority for public contracts, whose decision is expected within 45 days of the notification.

## Electricity generation and demand

### DOMESTIC ELECTRICITY FLOWS

Millions of kWh	1st Quarter			
	2008	2007	Change	
Gross electricity generation:				
- thermal	69,558	66,372	3,186	4.8%
- hydroelectric	8,344	8,533	(189)	-2.2%
- geothermal and other resources	3,074	2,577	497	19.3%
Total gross electricity generation	80,976	77,482	3,494	4.5%
Auxiliary services consumption	(3,335)	(3,164)	(171)	-5.4%
Net electricity generation	77,641	74,318	3,323	4.5%
Net electricity imports	10,379	13,095	(2,716)	-20.7%
Electricity delivered to the network	88,020	87,413	607	0.7%
Consumption for pumping	(1,803)	(1,988)	185	9.3%
Electricity demand	86,217	85,425	792	0.9%

Source: Terna - Rete Elettrica Nazionale (monthly report – March 2008).

- > *Domestic electricity demand* in the 1st Quarter of 2008 increased by 0.9% with respect to the corresponding period of 2007, reaching 86.2 billion kWh at March 31, 2008. Of this total, 88.0% was met by net domestic electricity generation for consumption (84.7% in the 1st Quarter of 2007), with the remaining 12.0% being met by net electricity imports (15.3% in the 1st Quarter of 2007);
- > *net electricity imports* in the first three months of 2008 decreased by 2.7 billion kWh (resulting from a decline of 2.2 billion kWh in imports and an increase of 0.5 billion in exports) essentially ascribable to the narrowing of the difference in energy prices between the European markets and the domestic market in the two reference periods;
- > total *gross electricity generation* increased by 4.5% in the 1st Quarter of 2008, and reflects the joint impact of lower imports and higher electricity demand. As regards the mix of fuels used for generation, the period saw a significant increase in generation from thermal sources (up 3.2 billion kWh) and alternative sources (up 0.5 billion kWh), partly offset by a decline in hydroelectric generation (down 0.2 billion kWh).

## Enel electricity and gas flows

### ENEL'S ELECTRICITY AND GAS FLOWS (DOMESTIC)

	1st Quarter			
	2008	2007	Change	
<b>Electricity</b> (millions of kWh)				
Net electricity generation in Italy	23,036	22,334	702	3.1%
Electricity transported on Enel's domestic distribution network <sup>(1)</sup>	64,309	62,864	1,445	2.3%
Domestic electricity sales <sup>(1)</sup>	36,319	35,384	935	2.6%
- of which on the free market <sup>(1)</sup>	12,262	8,291	3,971	47.9%
<b>Gas</b> (millions of cubic meters)				
Gas transported	1,496	1,372	124	9.0%
Gas sold to end users	2,232	1,760	472	26.8%

(1) Excluding sales to resellers.

- > Enel's *net electricity generation* in Italy rose by 3.1% in the 1st Quarter of 2008, in line with the performance of net domestic generation. This increase is related to thermal generation (up 0.6 billion kWh) and hydroelectric generation (up 0.1 billion kWh);
- > *electricity transported* in the 1st Quarter of 2008 came to 64,309 million kWh, an increase of 2.3%, in line with developments in demand on the domestic network;
- > Enel's *domestic electricity sales* in the 1st Quarter of 2008 totaled 36.3 TWh, an increase of 0.9 TWh. The increase reflects the higher sales to the free market, which were offset by a fall in sales to the enhanced protection and safeguard markets (regulated markets) as a result of the opening of the domestic electricity market in the second Half of 2007;
- > the volume of *gas transported* in the 1st Quarter of 2008 increased by 0.1 billion cubic meters, the result mainly of higher consumption caused by the colder weather in early 2008;
- > *gas sold to end users* rose by 0.5 billion cubic meters owing to the joint effect of the acquisition of new customers and the weather conditions mentioned above.

### ENEL'S ELECTRICITY AND GAS FLOWS (ABROAD)

	1st Quarter		
	2008	2007	Change
<b>Electricity</b> (millions of kWh)			
Net electricity generation abroad	34,926	9,277	25,649
Electricity transported on Enel's international distribution network <sup>(1)</sup>	34,270	3,187	31,083
International electricity sales <sup>(1)</sup>	34,148	7,746	26,402
- of which on the free market <sup>(1)</sup>	14,664	5,543	9,121
<b>Gas sold</b> (millions of cubic meters)			
Gas transported	96	-	96
Gas sold to end users	681	-	681

(1) Excluding sales to resellers.

- > Enel's *net electricity generation* abroad in the 1st Quarter of 2008 came to 34.9 billion kWh, an increase of 25.6 billion kWh (of which 13.6 billion kWh from

- thermal plants, 6.1 billion kWh from hydro facilities and 5.3 billion kWh from nuclear plants), most of which, 25.4 billion kWh, relates to the acquisition of Endesa;
- > *electricity transported* in the first three months of 2008 totaled 34.3 billion kWh, an increase that reflects the acquisition of Endesa (up 30.9 billion kWh) and the larger volumes transported in Romania (up 0.1 billion kWh);
  - > *international electricity sales* in the first three months of 2008 increased by 26.4 billion kWh, essentially as a result of the addition of Endesa to the scope of consolidation (up 26.8 billion kWh), partially offset by a decline in sales volumes in Russia (down 0.7 billion kWh).

## Main changes in the scope of consolidation

The scope of consolidation changed with respect to the 1st Quarter of 2007 as a result of the following main transactions:

- > the acquisition, on February 2, 2007, of the entire capital of the Panamanian company Enel Fortuna, giving Enel full control of Fortuna, which is fully consolidated;
- > the acquisition of 40% of Artic Russia, the direct parent company of SeverEnergia, and the subsequent acquisition by the latter, on April 4, 2007, of a set of assets in the gas sector. As it is subject to joint control, SeverEnergia is consolidated on a proportionate basis;
- > the acquisition, on July 2, 2007, of 90% of Nuove Energie, a company that builds and operates LNG regasification infrastructures;
- > the acquisition, on October 5, 2007, following the successful completion of the public tender offer, of 42.08% of Endesa; as from that date, taking account of the previous holding in the company (24.97%), Endesa is consolidated on a proportionate basis as it is under joint control;
- > the acquisition, on October 1, 2007, of 100% of three companies (International Windpower, Wind Parks of Thrace and International Wind Parks of Thrace) active in generating electricity from wind power in Greece;
- > the acquisition, on October 24, 2007, of 100% of Blue Line, a Romanian company that holds the rights to develop wind power projects in the region of Dobrogea;
- > the acquisition, on December 6, 2007, of 100% of Inelec, a company active in hydroelectric generation in Mexico;
- > the acquisition, on March 5, 2008, of 85% of Global Power Investment, a Romanian company active in the generation of electricity from renewable resources.

Following the establishment of joint control over Endesa, after acquisition of 42.08% of its capital and under the terms of the agreement with Acciona of March 26, 2007, the terms of the contracts signed between Enel, Acciona and E.On concerning the transfer of certain assets held by Enel and Endesa took effect. Accordingly, taking due account of the agreement of March 18, 2008, in order to reflect these agreements in the accounts, the following have been reported in the condensed consolidated balance sheet as "Assets held for sale" and "Liabilities held for sale":

- > the assets and liabilities held directly or indirectly by Endesa in Italy, France, Poland and Turkey, as well as a number of other assets in Spain included in the disposals agreed with E.On (hereinafter "Endesa Europa");

- > the assets and liabilities in respect of renewable energy operations held by Endesa, which will be transferred to Acciona Energia, in which Endesa will hold a 49% stake following the transfer;
- > the assets and liabilities in respect of Enel's equity investments in Enel Viesgo Generación, Enel Viesgo Servicios and Electra de Viesgo Distribución and the equity investments held by them that are included in the disposal agreed with E.On.

In the condensed consolidated income statement, the income or loss, net of the related tax effect, attributable to the net assets held for sale of Endesa Europa is reported under "discontinued operations" as those net assets have been acquired for the sole purpose of their resale.

The results presented in this report reflect the organizational structure in place since December 2007, which, in addition to the Sales, Generation and Energy Management, Infrastructure and Networks and International Divisions, includes two new Divisions: "Iberia and Latin America" and "Engineering and Innovation". Each of these Divisions, together with the Parent Company and the Services and Other Activities areas, was considered by management in assessing Group performance.

For the purposes of providing comparable figures, the data related to the corresponding periods of 2007 have been reallocated to the Divisions on the basis of the new organizational arrangements. For this reason, with respect to the information reported at March 31, 2007 and December 31, 2007, the figures for the new Engineering and Innovation Division have been drawn from the results of the Domestic Generation and Energy Management Division, while the figures for the new Iberia and Latin America Division have been taken from those of the International Division.

# Results by Division for the 1st Quarter of 2008 and 2007

## 1ST QUARTER OF 2008 <sup>(1)</sup>

Millions of euro	Sales	GEM	Engin. and Innov.	Infr. and Net.	Iberia and Latin America	Int'l Company	Parent Company	Services and Other Activities	Eliminat. and adjustments	Total
Revenues from third parties	6,368	3,355	-	357	4,014	885	91	39	(27)	15,082
Revenues from other segments	40	2,218	309	1,312	4	59	73	227	(4,242)	-
<b>Total revenues</b>	<b>6,408</b>	<b>5,573</b>	<b>309</b>	<b>1,669</b>	<b>4,018</b>	<b>944</b>	<b>164</b>	<b>266</b>	<b>(4,269)</b>	<b>15,082</b>
Net income/(charges) from commodity risk management	68	(215)	-	-	-	(15)	-	-	-	(162)
<b>Gross operating margin</b>	<b>189</b>	<b>707</b>	<b>4</b>	<b>967</b>	<b>1,217</b>	<b>289</b>	<b>8</b>	<b>56</b>	<b>8</b>	<b>3,445</b>
Depreciation, amortization and impairment losses	55	218	-	224	485	103	2	21	-	1,108
<b>Operating income</b>	<b>134</b>	<b>489</b>	<b>4</b>	<b>743</b>	<b>732</b>	<b>186</b>	<b>6</b>	<b>35</b>	<b>8</b>	<b>2,337</b>
Net financial income/(expense) and income/(expense) from equity investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	(725)
Income taxes	-	-	-	-	-	-	-	-	-	504
<b>Net income from continuing operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,108</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95</b>
<b>Net income (Group and minority interests)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,203</b>
<b>Operating assets</b>	<b>9,294</b>	<b>17,479</b>	<b>208</b>	<b>19,318</b>	<b>59,582 <sup>(2)</sup></b>	<b>8,853</b>	<b>1,332</b>	<b>1,533</b>	<b>(5,534)</b>	<b>112,065</b>
<b>Operating liabilities</b>	<b>6,375</b>	<b>4,000</b>	<b>276</b>	<b>5,843</b>	<b>9,988 <sup>(3)</sup></b>	<b>3,773</b>	<b>1,118</b>	<b>1,378</b>	<b>(4,741)</b>	<b>28,010</b>
<b>Capital expenditure</b>	<b>4</b>	<b>293</b>	<b>-</b>	<b>296</b>	<b>472</b>	<b>95</b>	<b>1</b>	<b>10</b>	<b>-</b>	<b>1,171</b>

(1) Segment revenues 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) Of which €7,884 million at March 31, 2008 (€8,792 million at December 31, 2007) regarding units classified as "Held for sale".

(3) Of which €1,963 million at March 31, 2008 (€2,147 million at December 31, 2007) regarding units classified as "Held for sale".



1ST QUARTER OF 2007 <sup>(1)</sup>

Millions of euro	Sales	GEM	Engin. and Innov.	Infr. and Net.	Iberia and Latin America	Int'l	Parent Company	Services and Other Activities	Eliminat. and adjustments	Total
Revenues from third parties	5,605	2,788	-	198	296	745	158	55	(117)	9,728
Revenues from other segments	12	1,182	184	1,183	1	17	52	217	(2,848)	-
<b>Total revenues</b>	<b>5,617</b>	<b>3,970</b>	<b>184</b>	<b>1,381</b>	<b>297</b>	<b>762</b>	<b>210</b>	<b>272</b>	<b>(2,965)</b>	<b>9,728</b>
Net income/(charges) from commodity risk management	(51)	49	-	-	1	1	-	-	-	-
<b>Gross operating margin</b>	<b>69</b>	<b>981</b>	<b>2</b>	<b>905</b>	<b>87</b>	<b>232</b>	<b>(11)</b>	<b>64</b>	<b>3</b>	<b>2,332</b>
Depreciation, amortization and impairment losses	35	231	-	208	29	95	4	21	-	623
<b>Operating income</b>	<b>34</b>	<b>750</b>	<b>2</b>	<b>697</b>	<b>58</b>	<b>137</b>	<b>(15)</b>	<b>43</b>	<b>3</b>	<b>1,709</b>
Net financial income/(expense) and income/(expense) from equity investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	(125)
Income taxes	-	-	-	-	-	-	-	-	-	597
<b>Net income (Group and minority interests)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>987</b>
<b>Operating assets <sup>(4)</sup></b>	<b>8,269</b>	<b>17,835</b>	<b>120</b>	<b>17,611</b>	<b>59,113 <sup>(2)</sup></b>	<b>8,385</b>	<b>1,228</b>	<b>1,609</b>	<b>(3,929)</b>	<b>110,241</b>
<b>Operating liabilities <sup>(4)</sup></b>	<b>6,138</b>	<b>4,807</b>	<b>307</b>	<b>4,319</b>	<b>9,897 <sup>(3)</sup></b>	<b>3,712</b>	<b>1,221</b>	<b>1,354</b>	<b>(3,083)</b>	<b>28,672</b>
<b>Capital expenditure</b>	<b>4</b>	<b>223</b>	<b>-</b>	<b>315</b>	<b>78</b>	<b>66</b>	<b>1</b>	<b>11</b>	<b>-</b>	<b>698</b>

(1) Segment revenues 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) Of which €7,884 million at March 31, 2008 (€8,792 million at December 31, 2007) regarding units classified as "Held for sale".

(3) Of which €1,963 million at March 31, 2008 (€2,147 million at December 31, 2007) regarding units classified as "Held for sale".

(4) At December 31, 2007.

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

Millions of euro

	at Mar. 31, 2008	at Dec. 31, 2007
<b>Total assets</b>	<b>127,128</b>	<b>123,748</b>
Financial assets, cash and cash equivalents	9,754	8,234
Tax assets	5,309	5,273
<b>Segment assets</b>	<b>112,065</b>	<b>110,241</b>
- of which:		
Sales	9,294	8,269
Generation and Energy Management	17,479	17,835
Engineering and Innovation	208	120
Infrastructure and Networks	19,318	17,611
Iberia and Latin America <sup>(1)</sup>	59,582	59,113
International	8,853	8,385
Parent Company	1,332	1,228
Services and Other Activities	1,533	1,609
Eliminations and adjustments	(5,534)	(3,929)
<b>Total liabilities</b>	<b>102,222</b>	<b>99,959</b>
Loans and other financial liabilities	67,861	65,299
Tax liabilities	6,351	5,988
<b>Segment liabilities</b>	<b>28,010</b>	<b>28,672</b>
- of which:		
Sales	6,375	6,138
Generation and Energy Management	4,000	4,807
Engineering and Innovation	276	307
Infrastructure and Networks	5,843	4,319
Iberia and Latin America <sup>(2)</sup>	9,988	9,897
International	3,773	3,712
Parent Company	1,118	1,221
Services and Other Activities	1,378	1,354
Eliminations and adjustments	(4,741)	(3,083)

(1) Of which €7,884 million at March 31, 2008 (€8,792 million at December 31, 2007) regarding units classified as "Held for sale".

(2) Of which €1,963 million at March 31, 2008 (€2,147 million at December 31, 2007) regarding units classified as "Held for sale".

## Sales

The 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 Servizio Elettrico and Vallenergie (the operations of the latter are limited to the Valle d'Aosta region) for the sale of electricity on the regulated market;
- > Enel Energia 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.

### ELECTRICITY SALES

Millions of kWh	1st Quarter			
	2008	2007	Change	
Free market:				
- mass-market customers	6,376	3,204	3,172	99.0%
- business customers <sup>(1)</sup>	5,886	5,087	799	15.7%
Total free market	12,262	8,291	3,971	47.9%
Enhanced protection and safeguard markets	24,057	27,093	(3,036)	-11.2%
Total	36,319	35,384	935	2.6%

(1) Supplies to large customers and large-scale power users (annual consumption greater than 1 GWh).

Electricity sold on the enhanced protection and safeguard markets amounted to 24.1 billion kWh in the 1st Quarter of 2008, a decrease of 3.0 billion kWh compared with the corresponding period of the previous year. This was largely the result of the opening of the market, which led to an increase of 4.0 billion kWh in the volumes sold on the free market in the same period, and an increase of around one million in the number of customers served.

### GAS SALES AND CUSTOMERS

	1st Quarter			
	2008	2007	Change	
Gas sales (millions of cubic meters):				
- mass-market customers <sup>(1)</sup>	1,450	1,220	230	18.9%
- business customers	782	540	242	44.8%
Total sales	2,232	1,760	472	26.8%
Customers at period-end: <sup>(2)</sup>				
- mass-market customers <sup>(1)</sup>	2,522,632	2,345,040	177,592	7.6%
- business customers	2,431	1,950	481	24.7%
Total customers	2,525,063	2,346,990	178,073	7.6%

(1) Includes residential customers and microbusinesses.

(2) Includes dual-energy customers.

Gas sales for the 1st Quarter of 2008 totaled 2,232 million cubic meters, an increase of 472 million cubic meters from the same period of the previous year. The increase is essentially ascribable to the favorable effects of temperatures in the 1st Quarter of 2007 and to the increase in the number of customers, especially those belonging to the mass-market segment.

## Performance

Millions of euro	1st Quarter		
	2008	2007	Change
Revenues	6,408	5,617	791
Net income/(charges) from commodity risk management	68	(51)	119
<i>Gross operating margin</i>	<i>189</i>	<i>69</i>	<i>120</i>
Operating income	134	34	100
Operating assets	9,294	8,269 <sup>(1)</sup>	1,025
Operating liabilities	6,375	6,138 <sup>(1)</sup>	237
Employees at period-end (no.)	4,710	4,772 <sup>(1)</sup>	(62)
Capital expenditure	4	4	-

(1) At December 31, 2007.

Total *revenues* for the 1st Quarter of 2008 amounted to €6,408 million, up €791 million or 14.1% over the same period of 2007, due mainly to the following factors:

- > an increase of €683 million in revenues from the free electricity market as a result of higher sales volumes, as well as an increase in the average sale price;
- > an increase of €140 million in revenues from the natural gas market relating mainly to higher sales volumes resulting both from more favorable climactic conditions compared with the corresponding period of the previous year and from an increase in the number of customers served;
- > a decrease of €35 million in revenues from the regulated electricity markets, mostly caused by a fall in sales volumes (down 3.0 TWh), which was partly offset by an increase in the rate component to cover generation costs.

The *gross operating margin* for the 1st Quarter of 2008 amounted to €189 million, an increase of €120 million over the same period of 2007. This increase is due to the following factors:

- > an increase of €73 million in the margin on electricity sales to the regulated markets, which is mainly ascribable to the following factors: an increase of €8 million in the margin on sales; the impact of the recognition on 2007 of a fine of €12 million levied under Resolution 66/07; the net positive effect of prior-year items connected with the purchase and sale of electricity (€19 million) and the containment of other operating expenses;
- > an increase of €62 million in the margin on electricity sales to the free market, most of which is ascribable to increased volumes sold;
- > an increase of €3 million in other operating expenses, mainly in connection with the commercial unit dedicated to managing customers in the free electricity and gas markets;
- > a decrease of €12 million in the margin on the sale of natural gas to end users, relating mainly to higher procurement costs, which more than offset the effect of higher sales volumes.

*Operating income* for the 1st Quarter of 2008, after depreciation, amortization and impairment losses in the amount of €55 million (€35 million for the 1st Quarter of 2007), came to €134 million, increasing by €100 million over the same period of 2007. The increase in depreciation, amortization and impairment losses is mainly due to an increase in impairments on trade receivables.

### **Capital expenditure**

*Capital expenditure* amounted to €4 million, in line with the value for the 1st Quarter of 2007.

## Generation and Energy Management

This Division operates in the field of electricity generation and energy products. The activities of the 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, mainly through Enel Trade.
- > the supply and sale of energy products through Enel Trade:
  - provisioning for all of the Group's needs;
  - the sale of natural gas to distributors.

### NET ELECTRICITY GENERATION

Millions of kWh	1st Quarter			
	2008	2007	Change	
Thermal	16,715	16,134	581	3.6%
Hydroelectric	4,824	4,747	77	1.6%
Geothermal	1,351	1,306	45	3.4%
Other resources	146	147	(1)	-0.7%
<b>Total net generation</b>	<b>23,036</b>	<b>22,334</b>	<b>702</b>	<b>3.1%</b>

In the 1st Quarter of 2008, net electricity generation totaled 23,036 million kWh, an increase of 3.1% over the 1st Quarter of 2007. The rise was mainly attributable to thermal generation, which increased by 581 million kWh, and hydroelectric generation, which rose by 77 million kWh.

### CONTRIBUTION TO GROSS THERMAL GENERATION

Millions of kWh	1st Quarter					
	2008		2007		Change	
High-sulfur fuel oil (S>0.25%)	796	4.5%	594	3.5%	202	34.0%
Low-sulfur fuel oil (S<0.25%)	1,172	6.6%	1,711	9.9%	(539)	-31.5%
<b>Total fuel oil</b>	<b>1,968</b>	<b>11.1%</b>	<b>2,305</b>	<b>13.4%</b>	<b>(337)</b>	<b>-14.6%</b>
Natural gas	7,648	42.9%	6,937	40.2%	711	10.2%
Coal	8,116	45.6%	7,949	46.1%	167	2.1%
Other fuels	79	0.4%	53	0.3%	26	49.1%
<b>TOTAL</b>	<b>17,811</b>	<b>100.0%</b>	<b>17,244</b>	<b>100.0%</b>	<b>567</b>	<b>3.3%</b>

Gross thermal generation rose by 3.3% compared with the same period of 2007. The largest absolute increase was in natural gas generation (up 10.2%), and reflects the increased operation of combined-cycle plants, boosted by the doubling of section 6 of the Termini Imerese plant, which entered service on February 1, 2008. Coal-fired generation also rose (up 2.1%) thanks to the full availability of two 160 MW sections at Fusina that were not operational in 2007, when they were undergoing environmental upgrading. Fuel-oil generation declined by 14.6%, mainly as a result of decreased use of low-sulfur fuel oil resulting from lower generation required from the Montalto di Castro power plant.

## Performance

Millions of euro	1st Quarter		
	2008	2007	Change
Revenues	5,573	3,970	1,603
Net income/(charges) from commodity risk management	(215)	49	(264)
Gross operating margin	707	981	(274)
Operating income	489	750	(261)
Operating assets	17,479	17,835 <sup>(1)</sup>	(356)
Operating liabilities	4,000	4,807 <sup>(1)</sup>	(807)
Employees at period-end (no.)	8,226	8,432 <sup>(1)</sup>	(206)
Capital expenditure	293	223	70

(1) At December 31, 2007.

**Revenues** in the 1st Quarter of 2008 came to €5,573 million, an increase of €1,603 million (up 40.4%) over the same period of 2007, due to the following main factors:

- > an increase of €1,105 million in revenues from energy sales, attributable to increased sales volumes (up 9.2 TWh) to the free market by the Sales Division (€908 million) and increased sales to resellers (up 1.3 TWh) on the domestic free market (€197 million);
- > an increase of €187 million in revenues from the sale of fuels for trading, attributable to an increase of €173 million in natural gas sales and an increase of €14 million in the sales of other fuels;
- > an increase of €172 million in revenues related to trading on international electricity markets (up 1.2 TWh);
- > an increase of €169 million in revenues from sales on the Power Exchange, mainly due to the increase in average sale prices.

The **gross operating margin** for the 1st Quarter of 2008 came to €707 million, down €274 million or 27.9% from the €981 million posted in the corresponding period of the previous year. The decrease was essentially related to the impact of commodity risk management, which was less favorable than in the same period of 2007.

**Operating income** came to €489 million, a fall of €261 million (down 34.8%) compared with the 1st Quarter of 2007, although depreciation, amortization and impairment losses decreased by €13 million, mainly as a result of the completion of the depreciation of a number of plants.

## Capital expenditure

**Capital expenditure** totaled €293 million and mainly regarded the continuation of projects on the thermal plants in the amount of €190 million (including the coal conversion of the Torrealvaldaga Nord plant for €176 million), refurbishing and repowering works at various hydroelectric plants in the amount of €26 million, projects involving wind plants in the amount of €19 million (including the completion of the Montarone 2 plant and the start of a number of projects in Sardinia) as well as activities in connection with geothermal generation plants in the amount of €12 million.

## Engineering and Innovation

The mission of the Engineering and Innovation Division is to serve the Group by managing the engineering processes related to the development and construction of power plants, ensuring achievement of the quality, temporal and financial objectives set for it. The Division also coordinated and supplements the Group's research activities, ensuring the scouting, development and leveraging of innovation opportunities in all Group business areas, with a special focus on the development of major environmental initiatives.

### Performance

Millions of euro	1st Quarter		
	2008	2007	Change
Revenues	309	184	125
Gross operating margin	4	2	2
Operating income	4	2	2
Operating assets	208	120 <sup>(1)</sup>	88
Operating liabilities	276	307 <sup>(1)</sup>	(31)
Employees at period-end (no.)	895	881 <sup>(1)</sup>	14
Capital expenditure	-	-	-

(1) At December 31, 2007.

**Revenues** in the 1st Quarter of 2008 came to €309 million, an increase of €125 million (up 67.9%) over the same period of 2007. The increase refers to increases in engineering services delivered to:

- > the Generation and Energy Management Division in the amount of €68 million, of which €62 million relating to the coal reconversion of the Torrevaldaliga Nord power plant;
- > the companies of the Iberia and Latin America Division and the International Division in the amount of €57 million, which includes, among other things, increased revenues from Enel Viesgo Generación's thermal plants at Algeciras and Puente Nuevo in Spain.

The **gross operating margin**, which coincided with **operating income**, came to €4 million in the 1st Quarter of 2008. The increase of €2 million reflects the expansion in engineering work done on behalf of companies in the Iberia and Latin America Division and the International Division.



The Infrastructure and Networks Division is mainly 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;
- > Enel Rete Gas for the distribution of gas;
- > Enel Sole for public and artistic lighting.

## Performance

Millions of euro	1st Quarter		
	2008	2007	Change
<b>Electricity</b>			
Revenues	1,562	1,260	302
Gross operating margin	898	823	75
Operating income	697	638	59
<b>Gas</b>			
Revenues	107	121	(14)
Gross operating margin	69	82	(13)
Operating income	46	59	(13)
<b>Total</b>			
Revenues	1,669	1,381	288
Gross operating margin	967	905	62
Operating income	743	697	46
Operating assets	19,318	17,611 <sup>(1)</sup>	1,707
Operating liabilities	5,843	4,319 <sup>(1)</sup>	1,524
Employees at period-end (no.)	22,437	22,710 <sup>(1)</sup>	(273)
Capital expenditure	296	315	(19)

(1) At December 31, 2007.

**Revenues** in the 1st Quarter of 2008 totaled €1,669 million, an increase of €288 million compared with the corresponding period of 2007 (up 20.9%) due to the following factors:

- > an increase of €302 million in revenues from the electricity network, essentially due to the new regulations governing electricity transmission services, which, in application of Decree Law 73/07 and subsequent provisions issued by the Authority for Electricity and Gas, provide for the costs of transport activities to be reflected in rates by the distribution companies;
- > a decrease of €14 million 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 increase in volumes transported and the increase in the average rates for the transport of gas.

The *gross operating margin* totaled €967 million, an increase of €62 million (up 6.9%) due to:

- > an improvement of €75 million in the performance of the electricity network, essentially attributable to the increase of €48 million in the electricity margin, largely due to the positive impact of the increased quantities transported and a reduction in operating expenses;
- > a decrease of €13 million in the margin of the gas distribution network due primarily to the above-mentioned prior-year items relating to transport in the period 2004-2005, the effect of which was partly offset by an improvement in the margin connected with the increase in volumes transported.

*Operating income*, net of depreciation, amortization and impairment losses totaling €224 million (€208 million in the 1st Quarter of 2007), amounted to €743 million, an increase of €46 million or 6.6% with respect to the same period of 2007.

### Capital expenditure

*Capital expenditure* amounted to €296 million, a decrease of €19 million, due essentially to reduced work on the electricity distribution network.

The Iberia and Latin America Division focuses on developing Enel's presence and coordinating its operations in the electricity and gas markets of Spain, Portugal and Latin America, formulating growth strategies in the related regional markets. The Division's chief geographic 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, sales, and support services (Electra de Viesgo Distribución, Enel Viesgo Energía and Enel Viesgo Servicios) in Spain;
- > Latin America, where it is engaged in generating power from renewable resources (Enel Latin America, Enel Fortuna, Enel Panama and Inelec).

The figures for the Division also include, as from the date of entry into the Enel scope of consolidation, the performance and financial data pertaining to the Endesa Group, which operates in Spain, Portugal and Latin America (especially Chile, Argentina, Colombia, Peru and, to a more limited extent, Brazil) in the generation, distribution and sale of electricity and gas, as well as other activities connected with its core business.

To facilitate a comparative analysis of the two periods, the Division results attributable to Endesa are reported separately.

#### NET ELECTRICITY GENERATION

Millions of kWh	1st Quarter			
	2008		2007	Change
	of which Endesa			
Thermal	14,247	13,784	825	13,422
Nuclear	5,059	5,059	-	5,059
Hydroelectric	7,148	6,051	1,016	6,132
Wind	702	503	185	517
Other resources	75	41	25	50
<b>Total net generation</b>	<b>27,231</b>	<b>25,438</b>	<b>2,051</b>	<b>25,180</b>

Net generation by the Iberia and Latin America Division for the 1st Quarter of 2008 totaled 27,231 million kWh, an increase of 25,180 million kWh over the same period of 2007. This increase is attributable primarily to the contribution of Endesa (25,438 million kWh), of which 14,906 million kWh refers to the Iberian peninsula (with 8,566 million kWh from thermal generation and 5,059 million kWh from nuclear generation) and 10,406 million kWh refers to Latin America (with 5,304 million kWh from hydroelectric generation and 5,097 million kWh from thermal generation).

The change is also attributable to an increase of 211 million kWh in hydroelectric generation in the Republic of Panama (attributable to the difference in the consolidation period in respect of the acquisition of Enel Fortuna, which was carried out in February 2007, and improved water availability), and from an increase of 51 million kWh in Mexico (in connection with the acquisition of Inelec). The increases were partially offset by a decline in net generation in Spain (500 million kWh), the main causes of which were the shutdown (from January 1, 2008) of the Puente Nuevo power plant for renovation work and the decline in water availability in the first three months of 2008 compared with the corresponding period of the previous year.

## CONTRIBUTION TO GROSS THERMAL GENERATION

Millions of kWh	1st Quarter						
	2008				2007		Change
	of which Endesa						
High-sulfur fuel oil (S>0.5%)	1,377	6.8%	1,377	7.0%	-	-	1,377
Low-sulfur fuel oil (S<0.5%)	50	0.2%	50	0.3%	-	-	50
Total fuel oil	1,427	7.0%	1,427	7.3%	-	-	1,427
Natural gas	4,393	21.7%	4,393	22.3%	8	0.9%	4,385
Coal	7,903	39.1%	7,380	37.4%	914	99.1%	6,989
Nuclear	5,277	26.1%	5,277	26.8%	-	-	5,277
Other fuels	1,240	6.1%	1,240	6.2%	-	-	1,240
Total	20,240	100.0%	19,717	100.0%	922	100.0%	19,318

As regards the fuel mix used in thermal generation, the relative proportion of their use in gross thermal generation in the 1st Quarter of 2008 was significantly influenced by the consolidation of Endesa.

## ELECTRICITY SALES TO END USERS

Millions of kWh	1st Quarter			
	2008		2007	Change
	of which Endesa			
Free market:				
- Iberian peninsula	7,087	6,883	144	6,943
- Latin America	2,646	2,646	-	2,646
Total free market	9,733	9,529	144	9,589
Regulated market:				
- Iberian peninsula	13,099	12,037	1,040	12,059
- Latin America	5,188	5,188	-	5,188
Total regulated market	18,287	17,225	1,040	17,247
Total	28,020	26,754	1,184	26,836
- of which Iberian peninsula	20,186	18,920	1,184	19,002
- of which Latin America	7,834	7,834	-	7,834

Electricity sales to end users by the Iberia and Latin America Division in the 1st Quarter of 2008 amounted to 28,020 million kWh, an increase of 26,836 million kWh compared with the corresponding period of 2007. The contribution of the consolidation of Endesa, equal to 26,754 million kWh, is essentially composed of 18,920 million kWh in sales in the Iberian peninsula (of which 12,037 million kWh on the regulated market and 6,883 million kWh on the free market) and 7,834 million kWh in sales in Latin America (of which 5,188 million kWh on the regulated market and 2,646 million kWh on the free market).

In addition, sales by other Spanish companies increased by 82 million kWh, mainly on the free market.

Millions of euro	1st Quarter		
	2008	2007	Change
	<i>of which Endesa</i>		
Revenues	4,018	3,564	297
Net income/(charges) from commodity risk management	-	(2)	1
Gross operating margin	1,217	1,108	87
Operating income	732	825	58
Operating assets <sup>(2)</sup>	59,582	-	59,113 <sup>(1)</sup>
Operating liabilities <sup>(3)</sup>	9,988	-	9,897 <sup>(1)</sup>
Employees at period-end (no.) <sup>(4)</sup>	20,377	-	20,226 <sup>(1)</sup>
Capital expenditure	472	340	78

(1) At December 31, 2007.

(2) Of which €7,884 million at March 31, 2008 (€8,792 million at December 31, 2007) regarding units classified as "Held for sale".

(3) Of which €1,963 million at March 31, 2008 (€2,147 million at December 31, 2007) regarding units classified as "Held for sale".

(4) Of which 2,622 at March 31, 2008 (2,614 at December 31, 2007) in units classified as "Held for sale".

The following table shows performance by geographic area.

Millions of euro	Revenues			Gross operating margin			Operating income		
	1st Quarter			1st Quarter			1st Quarter		
	2008	2007	Change	2008	2007	Change	2008	2007	Change
Iberian peninsula	2,586	243	2,343	716	54	662	339	30	309
Latin America	1,432	54	1,378	501	33	468	393	28	365
<b>Total</b>	<b>4,018</b>	<b>297</b>	<b>3,721</b>	<b>1,217</b>	<b>87</b>	<b>1,130</b>	<b>732</b>	<b>58</b>	<b>674</b>

**Revenues** in the 1st Quarter of 2008 show an increase of €3,721 million, which reflects the combined effect of the consolidation of Endesa (€3,564 million) and higher revenues generated by the other companies in the Division (€157 million). In particular:

- > Endesa revenues in the 1st Quarter of 2008 amounted to €3,564 million, divided between the Iberian peninsula (€2,204 million) and Latin America (€1,360 million). Specifically, the revenues from the Iberian peninsula mostly derive from generation activities in the amount of €1,263 million and electricity distribution and sales in the amount of €408 million. Revenues from Latin America are mainly derived from the distribution and sale of electricity (€812 million) and generation activities (€502 million);
- > the increase in revenues from other companies in the Division reflects an increase of €61 million from fuel trading carried out by EnelViesgo Generación, an increase of €51 million from the sale of electricity by the Spanish companies (essentially attributable to a rise in unit prices), and €20 million deriving from the inclusion of Inelec and Enel Fortuna in the scope of consolidation.

The **gross operating margin** in the period was €1,217 million, up by €1,130 million with respect to the 1st Quarter of 2007, of which €1,108 million relates to the consolidation of Endesa and €22 million to other companies in the Division. Specifically:

- > the gross operating margin attributable to the consolidation of Endesa amounted to €1,108 million in the 1st Quarter of 2008, and referred to the

Iberian peninsula in the amount of €659 million and Latin America in the amount of €449 million. The gross operating margin pertaining to the Iberian peninsula was mostly derived from generation activities (€357 million) and the distribution and sale of electricity (€227 million). The gross operating margin pertaining to Latin America was mainly attributable to the distribution and sale of electricity (€276 million) and generation activities (€179 million);

- > the gross operating margin of the other companies of the Division, which increased by €22 million, mainly reflects the higher gross operating margin of the Panamanian companies thanks to improved water availability and the effect of the difference in the period of consolidation of Enel Fortuna (€19 million), and the expansion of the scope of consolidation with the addition of Inelec (€2 million).

*Operating income* for the 1st Quarter of 2008 amounted to €732 million and shows an increase on the corresponding period of the previous year of €674 million. The rise reflects the effect of the acquisition and consolidation of Endesa (€825 million), partially offset by a contraction in the operating performance of the other Spanish companies, mainly attributable to the adjustment of the value of the Viesgo Group net assets held for sale to E.On (€168 million).

Endesa's operating income pertains to the Iberian peninsula in the amount of €478 million and to Latin America in the amount of €347 million. Specifically, operating income from the Iberian peninsula is essentially related to generation activities (€263 million) and the distribution and sale of electricity (€146 million). Operating income from Latin America is attributable to the distribution and sale of electricity in the amount of €225 million and generation activities in the amount of €129 million.

### Capital expenditure

*Capital expenditure* totaled €472 million, an increase of €394 million compared with the 1st Quarter of 2007, of which €340 million relates to Endesa. Endesa's capital expenditure mainly regarded investments of €171 million in the electricity distribution network, €89 million in thermal power plants, and €20 million in nuclear plants. The higher capital spending by other companies in the Division referred mainly to work for the reconversion of a number of Spanish thermal generation plants (Algeciras and Puente Nuevo) belonging to Enel Viesgo Generación.

The International Division's mission is to support Enel's international growth strategy and consolidate the management and integration of foreign operations (with the exception of the Iberian and Latin American markets), seeking out business opportunities in the electricity and gas markets.

The Division's chief geographic areas of operation are:

- > Central Europe, where it is engaged in power sales and plant development in France (Enel France and Enel Erelis), and power generation in Slovakia (Slovenské elektrárne);
- > South-eastern Europe, where it is active in generation and technical support services in Bulgaria (Enel Maritza East 3 and Enel Operations Bulgaria), power distribution, sales and support services in Romania (Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, Enel Romania and Enel Servicii Comune), and wind-power development and operation in Greece (Enelco, International Windpower, Wind Parks of Thrace and International Wind Parks of Thrace) and in Romania (Blue Line and Global Power Investment);
- > Russia, with upstream activities in the gas industry (SeverEnergia), energy trading and sales (RusEnergosbyt), and generation plant operation (ESN Energo) in the Russian Federation;
- > North America, where it is engaged in generating power from renewable resources (Enel North America).

#### NET ELECTRICITY GENERATION

Millions of kWh	1st Quarter			
	2008	2007	Change	
Thermal	1,723	1,574	149	9.5%
Nuclear	4,305	4,097	208	5.1%
Hydroelectric	1,411	1,449	(38)	-2.6%
Wind	195	57	138	-
Other resources	61	49	12	24.5%
<b>Total</b>	<b>7,695</b>	<b>7,226</b>	<b>469</b>	<b>6.5%</b>

Net generation by the International Division in the 1st Quarter of 2008 amounted to 7,695 million kWh, an increase of 469 million kWh compared with the same period of 2007, with generalized growth in all the countries in which the Division operates. Specifically, power generation in Slovakia rose by 168 million kWh (up 2.8%), largely as a result of increased nuclear generation. Thermal generation in Bulgaria increased by 130 million kWh or 14.8%, mainly as a result of the greater availability of capacity and higher demand. Generation in North America rose by 118 million kWh (up 31.9%), thanks mainly to the entry into service of the wind power plants of Snyder and Smoky Hills. In addition to these increases in output, the result was also boosted by the inclusion of International Windpower, Wind Parks of Thrace and International Wind Parks of Thrace in the scope of consolidation, which added jointly 52 million kWh of wind generation to the total.

## CONTRIBUTION TO GROSS THERMAL GENERATION

Millions of kWh	1st Quarter					
	2008		2007		Change	
Coal	2,008	30.1%	1,809	28.9%	199	11.0%
Nuclear fuel	4,654	69.9%	4,440	71.1%	214	4.8%
<b>Total</b>	<b>6,662</b>	<b>100.0%</b>	<b>6,249</b>	<b>100.0%</b>	<b>413</b>	<b>6.6%</b>

As regards the mix of fuels used in thermal generation, the proportion of the various fuels used in the 1st Quarter of 2008 reflects the increase in thermal generation mentioned above.

## ELECTRICITY SALES TO END USERS

Millions of kWh	1st Quarter			
	2008	2007	Change	
Free market:				
- Romania	152	160	(8)	-5.0%
- France	311	82	229	-
- Russia	4,468	5,157	(689)	-13.4%
Total free market	4,931	5,399	(468)	-8.7%
Regulated market:				
- Romania	1,139	1,109	30	2.7%
- Russia	58	54	4	7.4%
Total regulated market	1,197	1,163	34	2.9%
Total	6,128	6,562	(434)	-6.6%
- of which Romania	1,291	1,269	22	1.7%
- of which France	311	82	229	-
- of which Russia	4,526	5,211	(685)	-13.1%

Sales of electricity to end users by the International Division in the 1st Quarter of 2008 fell by 434 million kWh, mostly because of lower sales in the Russian market, mainly associated with changes in the customer mix, which were partly offset by an increase in sales of electricity by Enel France.



## Performance

Millions of euro	1st Quarter		
	2008	2007	Change
Revenues	944	762	182
Net income/(charges) from commodity risk management	(15)	1	(16)
Gross operating margin	289	232	57
Operating income	186	137	49
Operating assets	8,853	8,385 <sup>(1)</sup>	468
Operating liabilities	3,773	3,712 <sup>(1)</sup>	61
Employees at period-end (no.)	11,319	11,528 <sup>(1)</sup>	(209)
Capital expenditure	95	66	29

(1) At December 31, 2007.

The table below shows performance by geographic area.

Millions of euro	Revenues			Gross operating margin			Operating income		
	1st Quarter			1st Quarter			1st Quarter		
	2008	2007	Change	2008	2007	Change	2008	2007	Change
Central Europe	571	405	166	236	179	57	158	104	54
South-eastern Europe	182	179	3	40	42	(2)	22	27	(5)
Russia	169	162	7	(1)	1	(2)	(4)	1	(5)
America	22	16	6	14	10	4	10	5	5
<b>Total</b>	<b>944</b>	<b>762</b>	<b>182</b>	<b>289</b>	<b>232</b>	<b>57</b>	<b>186</b>	<b>137</b>	<b>49</b>

**Revenues** in the 1st Quarter of 2008 rose by €182 million (up 23.9%) from €762 million to €944 million. The chief contributors to the total increase are as follows: Slovenské elektrárne (€112 million), Enel France (€54 million), owing to the combined effect of higher sales volumes and favorable price developments, and RusEnergSbyt (€7 million), essentially attributable to the adoption of a new rate mechanism, which more than made up for a fall in volumes sold. These revenue increases were accompanied by higher revenues at the Bulgarian companies (€6 million, thanks to increased sales of electricity) and by the North American companies (€3 million). The rises were only partly offset by a fall of €3 million in revenues from the Romanian companies.

The **gross operating margin** in the period was €289 million, an increase of €57 million or 24.6% compared with the 1st Quarter of 2007. The increase is mainly referred to Enel France for €31 million, to Slovenské elektrárne for €26 million (owing to the improved electricity margin), to the consolidation of the Greek companies for €3 million and to the increased margins of the North American companies for €2 million. These increases were only partially offset by a decrease of €5 million in the margin of the Romanian companies.

*Operating income* for the 1st Quarter of 2008 amounted to €186 million, an increase on the corresponding period of the previous year of €49 million, of which €32 million relates to Enel France and €22 million to Slovenské elektrárne. These increases were only partly offset by a decrease of €6 million in the operating income of the Romanian companies.

### Capital expenditure

*Capital expenditure* in the period came to €95 million, up €29 million compared with the corresponding period of the previous year. The increase mainly refers to higher investment spending on wind plants in North America (Smoky Hills) and on thermal plants in Slovakia.

# Parent Company, Services and Other Activities

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Millions of euro	1st Quarter		
	2008	2007	Change
<b>Parent Company</b>			
Revenues	164	210	(46)
Net income/(charges) from commodity risk management	-	-	-
Gross operating margin	8	(11)	19
Operating income	6	(15)	21
Operating assets	1,332	1,228 <sup>(1)</sup>	104
Operating liabilities	1,118	1,221 <sup>(1)</sup>	(103)
Employees at period-end (no.)	701	728 <sup>(1)</sup>	(27)
Capital expenditure	1	1	-
<b>Services and Other Activities</b>			
Revenues	266	272	(6)
Gross operating margin	56	64	(8)
Operating income	35	43	(8)
Operating assets	1,533	1,609 <sup>(1)</sup>	(76)
Operating liabilities	1,378	1,354 <sup>(1)</sup>	24
Employees at period-end (no.)	4,580	4,223 <sup>(1)</sup>	357
Capital expenditure	10	11	(1)

(1) At December 31, 2007.

## 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.

## Performance

**Revenues** in the 1st Quarter of 2008 came to €164 million, a decrease of €46 million over the same period of 2007 (down 21.9%). This decrease is mainly attributable to:

- > the fall in revenues from electricity sales (down 2.3 TWh), mainly related to a decrease of €71 million in sales in France on the free market in connection with the expiry of a contract with EdF for the import of electricity (December 31, 2007), which was only partly mitigated by an increase of €6 million in electricity sales to the Single Buyer due to the rise in average sale prices;
- > an increase of €24 million in revenues from the provision of services to other Group companies, consisting essentially of management fees and support for communication activities connected with the opening of the free market.

The **gross operating margin** for the 1st Quarter of 2008 came to €8 million, an improvement of €19 million with respect to the corresponding period of the previous year. The increase was due largely to the increased margin on electricity sales (€13 million).

*Operating income* came to €6 million, an increase of €21 million compared with the 1st Quarter of 2007, with a decrease of €2 million in depreciation, amortization and impairment losses.

### Services and Other Activities

The primary purpose of the Services and Other Activities area is to provide competitive services to the companies of the Group, such as real estate and facility management services, IT services, personnel training and administration, general administrative services, and factoring and insurance services.

### Performance

*Revenues* from the Services and Other Activities area in the 1st Quarter of 2008 came to €266 million, compared with €272 million in the corresponding period of 2007. The decrease of €6 million or 2.2% essentially reflects a decline in the engineering and construction work done for non-Group customers.

The *gross operating margin* for the 1st Quarter of 2008 amounted to €56 million, down by €8 million or 12.5% with respect to the corresponding period of the previous year, essentially caused by a reduction of €2 million in the gains made on property sales, as well as a reduction of €3 million in the engineering and construction work mentioned above.

*Operating income* for the 1st Quarter of 2008 amounted to €35 million, a decrease of €8 million over the same period of 2007.





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# Condensed Consolidated Income Statement

Millions of euro	1st Quarter			
	2008	2007	Change	
<b>Total revenues</b>	<b>15,082</b>	<b>9,728</b>	<b>5,354</b>	<b>55.0%</b>
<b>Total costs</b>	<b>11,475</b>	<b>7,396</b>	<b>4,079</b>	<b>55.2%</b>
Net income/(charges) from commodity risk management	(162)	-	(162)	-
<b>Gross operating margin</b>	<b>3,445</b>	<b>2,332</b>	<b>1,113</b>	<b>47.7%</b>
Depreciation, amortization and impairment losses	1,108	623	485	77.8%
<b>Operating income</b>	<b>2,337</b>	<b>1,709</b>	<b>628</b>	<b>36.7%</b>
Financial income	746	188	558	296.8%
Financial expense	1,494	315	1,179	374.3%
<b>Total financial income/(expense)</b>	<b>(748)</b>	<b>(127)</b>	<b>(621)</b>	<b>489.0%</b>
Share of income/(expense) from equity investments accounted for using the equity method	23	2	21	-
<b>Income before taxes</b>	<b>1,612</b>	<b>1,584</b>	<b>28</b>	<b>1.8%</b>
Income taxes	504	597	(93)	-15.6%
<b>Income from continuing operations</b>	<b>1,108</b>	<b>987</b>	<b>121</b>	<b>12.3%</b>
<b>Income from discontinued operations</b>	<b>95</b>	<b>-</b>	<b>95</b>	<b>-</b>
<b>Net income for the period (shareholders of the Parent Company and minority interests)</b>	<b>1,203</b>	<b>987</b>	<b>216</b>	<b>21.9%</b>
Attributable to minority interests	199	44	155	352.3%
Attributable to shareholders of the Parent Company	1,004	943	61	6.5%
<i>Earnings per share attributable to shareholders of the Parent Company (euro) <sup>(1)</sup></i>	<i>0.16</i>	<i>0.15</i>	<i>0.001</i>	<i>6.7%</i>

(1) Diluted earnings per share attributable to shareholders of the Parent Company are equal to basic earnings per share attributable to shareholders of the Parent Company.



# Condensed Consolidated Balance Sheet

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Millions of euro

	at Mar. 31, 2008	at Dec. 31, 2007	Change
<b>Assets</b>			
<b>Non-current assets</b>			
- Property, plant and equipment and intangible assets	57,656	57,374	282
- Goodwill	26,362	26,274	88
- Equity investments accounted for using the equity method	2,940	1,972	968
- Other non-current assets <sup>(1)</sup>	7,820	7,719	101
<b>Total</b>	<b>94,778</b>	<b>93,339</b>	<b>1,439</b>
<b>Current assets</b>			
- Trade receivables	12,169	11,576	593
- Inventories	1,664	1,726	(62)
- Cash and cash equivalents	1,368	1,234	134
- Other current assets <sup>(2)</sup>	8,699	7,640	1,059
<b>Total</b>	<b>23,900</b>	<b>22,176</b>	<b>1,724</b>
<b>Assets held for sale</b>	<b>8,450</b>	<b>8,233</b>	<b>217</b>
<b>Total assets</b>	<b>127,128</b>	<b>123,748</b>	<b>3,380</b>
<b>Liabilities and shareholders' equity</b>			
- Equity attributable to the shareholders of the Parent Company	20,468	19,631	837
- Equity attributable to minority interests	4,438	4,158	280
<b>- Total</b>	<b>24,906</b>	<b>23,789</b>	<b>1,117</b>
<b>Non-current liabilities</b>			
- Long-term loans	51,669	52,155	(486)
- Other provisions and deferred tax liabilities	13,617	13,686	(69)
- Other non-current liabilities	5,366	5,004	362
<b>Total</b>	<b>70,652</b>	<b>70,845</b>	<b>(193)</b>
<b>Current liabilities</b>			
- Short-term loans and current portion of long-term loans	9,732	8,014	1,718
- Trade payables	8,819	9,622	(803)
- Other current liabilities <sup>(3)</sup>	8,857	7,361	1,496
<b>Total</b>	<b>27,408</b>	<b>24,997</b>	<b>2,411</b>
<b>Liabilities held for sale</b>	<b>4,162</b>	<b>4,117</b>	<b>45</b>
<b>Total liabilities and shareholders' equity</b>	<b>127,128</b>	<b>123,748</b>	<b>3,380</b>

(1) Of which long-term financial receivables equal to €1,315 million at March 31, 2008 (€1,339 million at December 31, 2007).

(2) Of which short-term financial receivables equal to €2,056 million at March 31, 2008 (€1,704 million at December 31, 2007) and securities equal to €77 million at March 31, 2008 (€101 million at December 31, 2007).

(3) Of which financial debt amounting to €487 million at March 31, 2008.

# Condensed Consolidated Statement of Cash Flows

Millions of euro	1st Quarter		
	2008	2007	Change
<b>Cash flows from operating activities (A)</b>	<b>1,017</b>	<b>1,871</b>	<b>(854)</b>
Investments in tangible and intangible assets	(1,331)	(698)	(633)
Investments in entities (or business units) less cash and cash equivalents acquired	(996)	(4,544)	3,548
(Increase)/Decrease in other investing activities	83	108	(25)
<b>Cash flows from (investing)/disinvesting activities (B)</b>	<b>(2,244)</b>	<b>(5,134)</b>	<b>2,890</b>
Change in net financial debt	1,454	3,317	(1,863)
Dividends paid	(82)	-	(82)
Increase in share capital and reserves due to the exercise of stock options	7	30	(23)
<b>Cash flows from financing activities (C)</b>	<b>1,379</b>	<b>3,347</b>	<b>(1,968)</b>
<b>Impact of exchange rate fluctuations on cash and cash equivalents (D)</b>	<b>(26)</b>	<b>-</b>	<b>(26)</b>
<b>Increase/(Decrease) in cash and cash equivalents (A+B+C+D)</b>	<b>126</b>	<b>84</b>	<b>42</b>
Cash and cash equivalents at the start of the period	1,463	572	891
Cash and cash equivalents at the end of the period	1,589 <sup>(1) (2)</sup>	656	933

(1) Of which short-term securities equal to €77 million at March 31, 2008.

(2) Of which cash and cash equivalents of assets held for sale equal to €144 million.

# Statement of Recognized Income and Expenses for the Period

Millions of euro	1st Quarter		
	2008		2007
		<i>of which assets held for sale</i>	
Effective portion of change in the fair value of cash flow hedges	(19)	(6)	185
Change in the fair value of financial investments available for sale	(43)	(4)	186
Exchange rate differences	(43)	-	33
<b>Net income for the period recognized in equity</b>	<b>(105)</b>	<b>(10)</b>	<b>404</b>
<b>Net income for the period recognized in income statement</b>	<b>1,203</b>	<b>95</b>	<b>987</b>
<b>Total recognized income and expenses for the period</b>	<b>1,098</b>	<b>85</b>	<b>1,391</b>
<b>Attributable to:</b>			
- shareholders of the Parent Company	829	85	1,341
- minority interests	269	-	50

# Operating performance and financial position

## Group operating performance

### Revenues

Millions of euro	1st Quarter		
	2008	2007	Change
Electricity sales and transport and contributions from Electricity Equalization Fund and similar bodies	13,266	8,523	4,743
Gas sold and transported to end users	1,079	751	328
Other services, sales and revenues	737	454	283
<b>Total</b>	<b>15,082</b>	<b>9,728</b>	<b>5,354</b>

In the 1st Quarter of 2008 revenues from **electricity sales and transport and contributions from Electricity Equalization Fund and similar bodies** amounted to €13,266 million, up €4,743 million or 55.6% over the same period of 2007. This increase is connected primarily with the following factors:

- > a €3,224 million increase in revenues from foreign operations, €2,876 million of which related to the consolidation of Endesa from the 4th Quarter of 2007, €172 million related to international energy trading and €117 million to Slovenské elektrárne owing to the combined effect of increased volumes sold and higher prices on the Slovakian market;
- > growth of €862 million in revenues from the transport and sale of electricity in Italy. This was the result of the increase in revenues on the free market in the amount of €617 million, owing to the increase in volumes sold and higher averages sale prices; revenues on the enhanced protection and safeguard markets rose by €245 million as a result of higher average prices, including the effect of equalization mechanisms not reflected in rates covering generation costs, which more than offset a decline in volumes sold connected with the completion of market opening;
- > higher contributions from the Electricity Equalization Fund and similar bodies in the amount of €223 million, mainly attributable to regulatory items with the Spanish electricity system pertaining to Endesa for extra-peninsular generation;
- > an increase of €218 million in revenues as the effect of increased revenues from the sale of electricity on the Power Exchange (mainly due to the increase in average prices) and the sale of electricity to the Single Buyer, essentially associated with bilateral contracts entered into by the generation companies as from 2008;
- > a €197 million increase in revenues from sales to wholesalers essentially due to a rise in volumes sold to resellers.

Revenues from **gas sold and transported to end users** came to €1,079 million in the 1st Quarter of 2008, up €328 million or 43.7% compared with the year-earlier period, due to the consolidation of Endesa (€210 million) and the increase in revenues on the domestic market (€118 million), mainly attributable

to increased volumes as a result of more favorable temperature conditions and an increase in the number of customers served.

**Other services, sales and revenues** came to €737 million in the 1st Quarter of 2008, an increase of €283 million or 62.3% on the corresponding period of 2007. The rise is mainly attributable to the following factors:

- > an increase of €215 million in revenues mainly associated with lease income, connection fees and other contributions connected with the consolidation of Endesa;
- > an increase of €52 million in revenues from the sale of fuels for trading, attributable to an increase of €90 million in revenues from fuel trading by the Spanish companies, partially offset by a contraction of €38 million in revenues on the domestic market.

## Costs

Millions of euro	1st Quarter		
	2008	2007	Change
Electricity purchases	6,196	4,441	1,755
Consumption of fuel for electricity generation	1,577	782	795
Purchase of fuel for trading and natural gas for resale to end users	886	502	384
Materials	160	136	24
Personnel	958	725	233
Services, leases and rentals	1,584	935	649
Charges for CO <sub>2</sub> emissions	51	(5)	56
Other operating expenses	321	111	210
Capitalized costs	(258)	(231)	(27)
<b>Total</b>	<b>11,475</b>	<b>7,396</b>	<b>4,079</b>

Costs for **electricity purchases** increased by €1,755 million in the 1st Quarter of 2008 (up 39.5%). The rise is mainly associated with the increase in quantities purchased by the Group's foreign companies, of which €758 million is attributable to the consolidation of Endesa, as well as the increase in quantities purchased for the domestic free market, which, in a context of rising average purchase prices, more than offset the reduction in quantities sold on the domestic enhanced protection and safeguard markets.

Costs for **consumption of fuel for electricity generation** amounted to €1,577 million in the 1st Quarter of 2008, a rise of €795 million on the corresponding period of the previous year (up 101.7%) mainly due to the consolidation of Endesa (€618 million), as well as the increase on the domestic market of the average unit cost of fuel and the volumes used for thermal generation.

Costs for the **purchase of fuel for trading and natural gas for resale to end users** came to €886 million in the 1st Quarter of 2008, up €384 million or 76.5% on the year-earlier period, essentially as a result of increased purchases of gas for sale to end users, as well as the effects of the consolidation of Endesa.

Costs for **materials** came to €160 million in the 1st Quarter of 2008, broadly in line with the same period of 2007 (up €24 million).

**Personnel** costs in the 1st Quarter of 2008 amounted to €958 million, up €233 million or 32.1%. Excluding the effects of the change in the scope of consolidation, which mainly regarded Endesa, personnel costs, including the charge associated with the renewal of the collective bargaining agreement for the electricity industry, declined by €29 million (down 4.0%), while the average number of employees fell by 6.9%.

Costs for **services, leases and rentals** came to €1,584 million in the 1st Quarter of 2008, up €649 million or 69.4% compared with the same period of 2007. Of the total rise, €387 million is attributable to the consolidation of Endesa, mainly associated with transport, maintenance and repair costs, as well as services and other expenses, and €228 million regards increased electricity transport costs connected with increased volumes transported on the free market.

**Charges for CO<sub>2</sub> emissions** totaled €51 million in the 1st Quarter of 2008, compared with net income of €5 million in the year-earlier period. The expense for the 1st Quarter of 2008 is essentially attributable to the measurement of the allowance deficit at the end of the period at estimated average provisioning prices at the same date.

**Other operating expenses** came to €321 million in the 1st Quarter of 2008, up €210 million on the 1st Quarter of 2007 due to the change in the scope of consolidation associated with Endesa.

In the 1st Quarter of 2008 **capitalized costs** rose by €27 million (up 11.7%) mainly as a result of the contribution of Endesa.

**Net income/(charges) from commodity risk management** showed a net charge of €162 million in the 1st Quarter of 2008 (compared with a zero balance in the 1st Quarter of 2007). The change primarily reflects the change in developments in the prices of energy products. The result for the 1st Quarter of 2008 reflects a net charge of €227 million from the fair value measurement of open derivatives contracts at the end of the period (compared with net income of €63 million in the year-earlier period), partially offset by net income of €65 million from positions closed during the period (compared with net realized charges of €63 million in the year-earlier period).

**Depreciation, amortization and impairment losses** increased by €485 million in the 1st Quarter of 2008, essentially due to increased depreciation, amortization and impairment losses associated with the consolidation of Endesa (€283 million) and the adjustment (€168 million) in the value of the Enel net assets held for sale to E.On to the estimated value based on the appraisal conducted by the investment banks.

**Operating income** in the 1st Quarter of 2008 totaled €2,337 million, an increase of €628 million on the year-earlier period attributable to the acquisitions carried out in the 2nd Half of 2007.

**Net financial expense** increased by a total of €621 million compared with the corresponding period of 2007. The rise is essentially attributable to the increase of €638 million in net financial expense caused by the rise in average debt following the acquisitions carried out since the 2nd Quarter of 2007. The figure

for the 1st Quarter of 2007 also reflected €51 million in financial income from the “premium meeting” paid by Endesa prior to the initial consolidation of that company. These factors were partially offset by the positive effect of the fair value measurement of the put option for Endesa shares granted by Enel to Acciona (€110 million).

The result of **investments accounted for using the equity method** in the 1st Quarter of 2008 was a positive €23 million, an increase of €21 million on the year-earlier period. It includes the effects of the equity-method measurement of OGK-5 and minor associated companies.

**Income taxes** amounted to €504 million in the 1st Quarter of 2008, compared with €597 million in the 1st Quarter of 2007. The change in the effective tax rate (31.3% of taxable income in the 1st Quarter of 2008, compared with 37.7% in the 1st Quarter of 2007) essentially reflected the tax contribution of the newly acquired foreign companies and the effects of the new tax rates.

## Analysis of the Group's financial position

### Non-current assets – €94,778 million

*Property, plant and equipment and intangible assets*, including investment property, amounted to €57,656 million at March 31, 2008, an increase of €282 million. The rise is essentially the result of capital expenditure in the period totaling €1,171 million, net of depreciation, amortization and impairment losses on such assets in the amount of €876 million.

*Goodwill*, which totaled €26,362 million, shows an increase of €88 million for the period, mainly attributable to exchange rate differences. The recognition under goodwill of the differences that emerged in the 1st Quarter of 2008 between the cost of equity investments and the value of the assets acquired less liabilities assumed was carried out provisionally pending more accurate allocation.

*Equity investments accounted for using the equity method* came to €2,940 million, up €968 million over the previous year due primarily to the acquisition of an additional 22.65% of OGK-5 (€993 million) following the completion of the public tender offer in February 2008 and net of the effects of accounting for the company with the equity method (a negative €14 million, taking account of the change in exchange rates).

*Other non-current assets* came to €7,820 million and include:

Millions of euro

	at Mar. 31, 2008	at Dec. 31, 2007	Change
Deferred tax assets	3,592	3,439	153
Non-current financial assets	2,135	2,212	(77)
Receivables due from Electricity Equalization Fund and similar bodies	1,361	1,356	5
Other long-term receivables	732	712	20
<b>Total</b>	<b>7,820</b>	<b>7,719</b>	<b>101</b>

The change of €101 million is mainly attributable to the following factors:

- > an increase of €153 million in deferred tax assets, due essentially to the recognition of tax items for the period;
- > a decrease of €77 million in non-current financial assets, of which €35 million associated with derivatives.

### Current assets – €23,900 million

The increase of €593 million in *trade receivables* is mainly connected with increased quantities sold in the 1st Quarter of 2008 on the domestic free market, net of the decrease in receivables for sales on the Power Exchange.



Millions of euro

	at Mar. 31, 2008	at Dec. 31, 2007	Change
Current financial assets	2,930	2,414	516
Tax receivables	1,354	1,146	208
Receivables due from Electricity Equalization Fund and similar bodies	2,781	2,281	500
Receivables due from others	1,634	1,799	(165)
<b>Total</b>	<b>8,699</b>	<b>7,640</b>	<b>1,059</b>

"Current financial assets" amounted to €2,930 million, up €516 million largely as the result of the rise in the current portion of long-term financial receivables (€342 million) and the increase in financial assets connected with derivatives (€194 million).

"Tax receivables" at March 31, 2008, totaled €1,354 million. They regard income tax receivables of €357 million, receivables for excise taxes and surcharges of €457 million and receivables for indirect taxes and duties of €540 million.

"Receivables due from Electricity Equalization Fund and similar bodies" rose by €500 million, mainly due to increased receivables in respect of the application of equalization mechanisms to electricity purchases on the domestic market as well as increased receivables from similar bodies due to Endesa, which include reimbursements of higher costs incurred for operations in extra-peninsular areas.

#### Assets held for sale – €8,450 million

They regard the reclassification of the assets to be sold in respect of the renewable energy resources held by Endesa and the Endesa Europa assets in the amount of €5,643 million and assets of the Viesgo Group amounting to €2,807 million.

#### Equity attributable to the shareholders of the Parent Company – €20,468 million

Share capital at March 31, 2008, consisted of 6,185,454,653 ordinary shares with a par value of €1.00 each.

The main changes for the quarter concerned net income for the period (€1,004 million), the exercise of 1,086,800 stock options granted under the 2003 and 2004 stock option plans (€7 million), as well as net charges recognized directly in equity related to the valuation of financial instruments in the amount of €90 million, exchange rate losses resulting from the translation of financial statements in the amount of €85 million, and the charge for the period related to the stock options outstanding in the amount of €1 million.

	Share capital and reserves attributable to the 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 the shareholders of the Parent Company	Equity attributable to minority interests	Total shareholders' equity
at 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 the period recognized in equity	-	-	-	-	-	27	371	-	398	6	404
Net income for the period recognized in income statement	-	-	-	-	-	-	-	943	943	44	987
at March 31, 2007	6,181	633	1,453	2,245	7,735	108	534	943	19,832	689	20,521
at January 1, 2008	6,184	651	1,453	2,250	5,942	(82)	493	2,740	19,631	4,158	23,789
Exercise of stock options	1	6	-	-	-	-	-	-	7	-	7
Stock option charges	-	-	-	1	-	-	-	-	1	-	1
Change in consolidation method	-	-	-	-	-	-	-	-	-	93	93
Dividend distribution	-	-	-	-	-	-	-	-	-	(82)	(82)
Allocation of net income from the previous year	-	-	-	-	2,740	-	-	(2,740)	-	-	-
Net income for the period recognized in equity	-	-	-	-	-	(85)	(80)	-	(165)	70	(95)
Net income for the period of assets held for sale recognized in equity	-	-	-	-	-	-	(10)	-	(10)	-	(10)
Net income for the period recognized in income statement	-	-	-	-	-	-	-	1,004	1,004	199	1,203
at March 31, 2008	6,185	657	1,453	2,251	8,682	(167)	403	1,004	20,468	4,438	24,906

### Non-current liabilities – €70,652 million

*Long-term loans* amounted to €51,669 million, consisting of bonds in the amount of €21,198 million, as well as bank loans and other financing in euro and other currencies in the amount of €30,471 million.

*Provisions and deferred tax liabilities* came to €13,617 million at March 31, 2008 and include provisions for post-employment and other employee benefits in the amount of €2,920 million, provisions for risks and charges of €6,481 million and deferred tax liabilities totaling €4,216 million.

*Other non-current liabilities* amounted to €5,366 million, an increase of €362 million, mainly attributable to the increase of €383 million in financial liabilities associated with derivatives.

### Current liabilities – €27,408 million

*Short-term loans and the current portion of long-term loans* increased by €1,718 million, going from €8,014 million at the end of 2007 to €9,732 million at March 31, 2008. This rise is primarily attributable to the €1,024 million increase in commercial paper issues and the net change of €662 million in the short-term portion of bonds.

*Trade payables*, in the amount of €8,819 million, fell by €803 million, essentially due to a decrease in payables for electricity purchases.

*Other current liabilities*, equal to €8,857 million, break down as follows:

Millions of euro			
	at Mar. 31, 2008	at Dec. 31, 2007	Change
Payables due to customers	1,622	1,537	85
Payables due to Electricity Equalization Fund and similar bodies	1,388	1,241	147
Current financial liabilities	2,571	1,561	1,010
Social security contributions payable and payables to employees	559	748	(189)
Tax payables	1,746	1,015	731
Other	971	1,259	(288)
<b>Total</b>	<b>8,857</b>	<b>7,361</b>	<b>1,496</b>

The change for the period, equal to €1,496 million, is mainly attributable to the following factors:

- > an increase of €1,010 million in financial liabilities, primarily related to the financial liabilities of Endesa with respect to the Spanish electricity system deficit in the amount of €487 million and liabilities in respect of derivatives totaling €480 million;
- > an increase of €731 million in tax payables, largely attributable to the estimate for taxes on current income for the period in the amount of €623 million.

### Liabilities held for sale – €4,162 million

They regard the reclassification of the liabilities to be sold in respect of the renewable energy resources held by Endesa and the Endesa Europa assets in the amount of €2,348 million and liabilities of the Viesgo Group amounting to €1,814 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, 2008	at Dec. 31, 2007	Change
<b>Net non-current assets:</b>			
- property, plant and equipment and intangible assets	57,656	57,374	282
- goodwill	26,362	26,274	88
- equity investments accounted for using the equity method	2,940	1,972	968
- other net non-current assets/(liabilities)	(2,453)	(2,063)	(390)
<b>Total</b>	<b>84,505</b>	<b>83,557</b>	<b>948</b>
<b>Net current assets:</b>			
- trade receivables	12,169	11,576	593
- inventories	1,664	1,726	(62)
- net receivables due from Electricity Equalization Fund and similar bodies	1,393	1,040	353
- other net current assets/(liabilities)	(3,197)	(2,566)	(631)
- trade payables	(8,819)	(9,622)	803
<b>Total</b>	<b>3,210</b>	<b>2,154</b>	<b>1,056</b>
<b>Gross capital employed</b>	<b>87,715</b>	<b>85,711</b>	<b>2,004</b>
<b>Provisions:</b>			
- post-employment and other employee benefits	(2,920)	(2,920)	-
- provisions for risks and charges and net deferred taxes	(7,105)	(7,327)	222
<b>Total</b>	<b>(10,025)</b>	<b>(10,247)</b>	<b>222</b>
<b>Net assets held for sale</b>	<b>4,288</b>	<b>4,116</b>	<b>172</b>
<b>Net capital employed</b>	<b>81,978</b>	<b>79,580</b>	<b>2,398</b>
<b>Total shareholders' equity</b>	<b>24,906</b>	<b>23,789</b>	<b>1,117</b>
<b>Net financial debt</b>	<b>57,072</b>	<b>55,791</b>	<b>1,281</b>

*Net capital employed* went from €79,580 million at December 31, 2007 to €81,978 million at March 31, 2008, and is covered by shareholders' equity (Group and minority interests) in the amount of €24,906 million and net financial debt of €57,072 million. With regard to the latter figure, the debt-to-equity ratio as at March 31, 2008 is 2.29 (compared with 2.35 at December 31, 2007).

# Net financial debt

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Millions of euro

	at Mar. 31, 2008	at Dec. 31, 2007	Change
<b>Long-term debt:</b>			
- bank loans	28,903	28,343	560
- bonds	21,198	22,365	(1,167)
- preference shares	968	966	2
- other loans	600	481	119
<i>Long-term debt</i>	<i>51,669</i>	<i>52,155</i>	<i>(486)</i>
Long-term financial receivables and securities	(1,315)	(1,339)	24
<b>Net long-term debt</b>	<b>50,354</b>	<b>50,816</b>	<b>(462)</b>
<b>Short-term debt:</b>			
Bank loans:			
- short-term portion of long-term debt	470	461	9
- drawings on revolving credit facilities	34	20	14
- other short-term bank debt	1,293	1,260	33
<i>Short-term bank debt</i>	<i>1,797</i>	<i>1,741</i>	<i>56</i>
Bonds (short-term portion)	2,695	2,033	662
Other loans (short-term portion)	218	235	(17)
Commercial paper	4,917	3,893	1,024
Other short-term financial payables	592	112	480
<i>Other short-term debt</i>	<i>8,422</i>	<i>6,273</i>	<i>2,149</i>
Long-term financial receivables (short-term portion)	(1,744)	(1,402)	(342)
Factoring receivables	(242)	(205)	(37)
Other short-term financial receivables	(70)	(97)	27
Cash and cash equivalents	(1,445)	(1,335)	(110)
<i>Cash and cash equivalents and short-term financial receivables</i>	<i>(3,501)</i>	<i>(3,039)</i>	<i>(462)</i>
<b>Net short-term debt</b>	<b>6,718</b>	<b>4,975</b>	<b>1,743</b>
<b>NET FINANCIAL DEBT</b>	<b>57,072</b>	<b>55,791</b>	<b>1,281</b>
<i>Financial debt of "Assets held for sale"</i>	<i>1,772</i>	<i>1,725</i>	<i>47</i>

Net financial debt amounted to €57,072 million at March 31, 2008, an increase of €1,281 million on December 31, 2007. One of the main factors in the rise during the first three months of 2008 was the completion of the public tender offer for OGK-5 with the acquisition of 22.65% of its share capital for about €993 million. Net long-term financial debt, equal to €50,354 million at March 31, 2008, decreased by €462 million, the balance between a €486 million decline in gross long-term financial debt and a €24 million reduction in long-term financial receivables and long-term securities. The rise in long-term bank loans also reflected the increase in the period of €300 million in outstanding drawings on the €5 billion, five-year revolving credit facility (renewable for an additional two years) granted to Enel SpA, which at December 31, 2007, had amounted to €700 million. The decrease in long-term bonds is mainly attributable to the reclassification to short-term debt of two bonds issued by the Endesa Group maturing in the 1st Quarter of 2009.

Net short-term financial debt came to €6,718 million at March 31, 2008, an increase of €1,743 million on the end of 2007. The overall rise was the net

effect of the €56 million increase in short-term bank debt, the €2,149 million increase in other short-term debt and the net €462 million rise in cash and cash equivalents and short-term financial receivables.

The rise in other short-term debt reflects the effect of the reclassification of the maturing Endesa bonds mentioned above, net of reimbursements for the period and the increase in commercial paper issues in the amount €1,024 million.

## Cash flows

*Cash flows from operating activities* were a positive €1,017 million in the 1st Quarter of 2008, down €854 million compared with the corresponding period of the previous year. The improvement in gross operating income, due in part to the consolidation of Endesa, including the effects of discontinued operations, was more than offset by the increased use of cash related to the change in net current assets in the two reference periods.

*Cash flows from investing/disinvesting activities* absorbed funds in the amount of €2,244 million in the 1st Quarter of 2008, compared with €5,134 million in the same period of 2007.

In particular, investments in property, plant and equipment and intangible assets, in the amount of €1,331 million, increased by €633 million due essentially to the change in the scope of consolidation.

Investments in companies and business units, net of cash and cash equivalents acquired, came to €996 million and essentially regard the acquisition of an additional 22.65% of OGK-5 (€993 million). The flow for the 1st Quarter of 2007 in the amount of €4,544 million reflected the purchase of 9.99% of Endesa (€4,134 million) and the acquisition of Enel Fortuna (€125 million).

The contribution of *cash flows from financing activities* in the amount of €1,379 million and *operating activities* in the amount of €1,017 million covered the requirements of investing activities in the 1st Quarter of 2008. The surplus is reflected in the increase in cash and cash equivalents, which reached €1,589 million at March 31, 2008, compared with the €1,463 million at the end of 2007. The surplus was affected by exchange rate losses of €26 million.

## 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 (Terna), the Single Buyer, the Electricity Services Operator, and the Market Operator (each of which is 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. In particular, companies of the Sales Division acquire electricity from the Single Buyer and settle the contracts for differences related to 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. Companies that are a part of the Generation and Energy Management Division, in addition to paying fees for the use of the national transmission network to Terna, carry out electricity transactions with the Market Operator on the Power Exchange and sell electricity to the Single Buyer through bilateral contracts. Enel also acquires fuel for generation and gas for distribution and sale from Eni, a company controlled by the Ministry for the Economy and Finance. Enel is also involved with Eni in the joint venture Artic Russia, which is the direct parent company of SeverEnergia. Please note that transactions involving assets held for sale regard transactions similar to those described above entered into by a number of companies in the Iberia and Latin America Division that are to be sold to E.On (Endesa Europa). 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	Revenues	Costs
	at Mar. 31, 2008		1st Quarter of 2008	
In respect of continuing operations				
Single Buyer	203	1,304	140	2,207
Market Operator	1,156	1,041	3,016	454
Terna	282	322	342	548
Electricity Services Operator	101	292	102	4
Eni	1	190	564	12
Italian Post Office	-	18	6	44
Other	2	3	1	1
In respect of assets held for sale				
Single Buyer	11	-	16	-
Market Operator	56	19	1	15
Terna	47	24	9	11
Electricity Services Operator	1	1	1	-
Eni	5	-	-	145
<b>Total</b>	<b>1,865</b>	<b>3,214</b>	<b>4,198</b>	<b>3,441</b>

The following table shows transactions with associated companies outstanding at March 31, 2008 and carried out during the first three months of the year.

Millions of euro	Balance sheet		Income statement	
	Receivables	Payables	Revenues	Costs
	at Mar. 31, 2008		1st Quarter of 2008	
Cesi	1	23	-	2
LaGeo	31	-	-	-
Other companies	1	14	2	1
<b>Total</b>	<b>33</b>	<b>37</b>	<b>2</b>	<b>3</b>

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.

## 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, 2008
Sureties granted to third parties	1,379
<b>Commitments to suppliers for:</b>	
- electricity purchases	24,834
- fuel purchases	58,054
- various supplies	3,866
- tenders	1,257
- other	1,805
<b>Total</b>	<b>89,816</b>
<b>TOTAL</b>	<b>91,195</b>

Guarantees granted to third parties amounted to €1,379 million and include €707 million in commitments relating to the sale of real estate assets in connection with the regulations that govern the termination of leases and to the related payments for a period of six years and six months from July 2004. The value of such guarantees is reduced annually by a specified amount.

Commitments for electricity amounted to €24,834 million at March 31, 2008, of which €11,220 million refers to the period April 1, 2008-2012, €5,310 million to the period 2013-2017, €5,214 million to the period 2018-2022 and the remaining €3,090 million beyond 2022.

Commitments for the purchase of fuels are determined with reference to the parameters and exchange rates prevailing at the end of the period (given that fuel prices vary and are mainly set in foreign currencies). The total at March 31, 2008,



was €58,054 million, of which €24,630 million refers to the period April 1, 2008-2012, €21,130 million to the period 2013-2017, €9,809 million to the period 2018-2022, and the remaining €2,485 million beyond 2022.

Other commitments include €572 million in respect of those under the cooperation agreement with EdF on November 30, 2007, for the construction of the Flamanville nuclear plant. The amount represents Enel's share of 12.5% of the cost of construction of the plant, which is scheduled to begin in 2012.

## Declaration of the manager responsible for the preparation of the company's financial reports pursuant to the provisions of Article 154 *bis*, paragraph 2, of Legislative Decree 58/1998

The manager responsible for the preparation of the company's financial reports, Luigi Ferraris, declares, pursuant to Article 154 *bis*, paragraph 2, of the Consolidated Law on Financial Intermediation, that the accounting information contained in the Interim financial report at March 31, 2008 corresponds with that contained in the accounting documentation, books and records.

**Design**

Inarea - Rome

**Publishing service**

Sogester - Rome

**Copy editing**

postScriptum - Rome

**On the cover**

Getty Images Photo

**Printed by**

Varigrafica Alto Lazio - Nepi (Viterbo)

Printed in July 2008

on re-cycled Fedrigoni Symbol Freelifa



300 copies printed

Publication not for sale

Edited by the External Relations Department

*Disclaimer*

This Report issued in Italian  
has been translated into  
English solely for the convenience  
of international readers.

Enel

Società per azioni

Registered office in Rome

137, Viale Regina Margherita

Capital Stock

Euro 6,184,367,853

(at December 31, 2007) fully paid-in

Tax I.D. and Companies' Register

of Rome no. 00811720580

R.E.A. of Rome no. 756032

VAT Code no. 00934061003



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