
**SECURITIES AND EXCHANGE COMMISSION
FORM 20-F/A**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number: 1-9932

ENDESA, S.A.

(Exact name of Registrant as specified in its charter)

Kingdom of Spain

(Jurisdiction of incorporation)

Ribera del Loira, 60

28042 Madrid, Spain

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary shares, nominal value €1.20 each*	New York Stock Exchange
American Depositary Shares, each representing the right to receive one ordinary share	New York Stock Exchange

* Listed on the New York Stock Exchange not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of issued shares of each class of stock of Endesa, S.A. as of December 31, 2004 was:

Ordinary shares, nominal value €1.20 each: 1,058,752,117

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

EXPLANATORY NOTE

This Form 20-F/A has been filed to amend Items 3.A and 19(a) (List of Financial Statements) of Endesa's 2004 annual report on Form 20-F as filed with the Commission on June 30, 2005 (the "2004 Form 20-F").

The principal impact of this amendment is the elimination, under U.S. GAAP, of certain sales and operating costs related to Endesa's electricity and gas businesses that under Spanish GAAP are recorded on a gross basis but under IFRS and U.S. GAAP are recorded on a net basis. This adjustment is described and quantified in the discussion of Endesa's net sales under IFRS on page 78 of the 2004 Form 20-F as filed with the Commission on June 30, 2005.

Note 26.27 ("Classification differences and other") of the financial statements included in Item 19(a) of the 2004 Form 20-F has been amended to include an additional explanation with respect to the difference between Spanish GAAP and U.S. GAAP described in the preceding paragraph. Also, the figures for Endesa's net sales under U.S. GAAP on page 3 of the 2004 Form 20-F have been revised to reflect this difference in treatment. These revisions do not affect Endesa's net income or stockholders' equity under U.S. GAAP.

Additionally, certain other revisions have been made to the selected financial data under U.S. GAAP on pages 3 and 4 of the 2004 Form 20-F to reflect differences between Spanish GAAP and U.S. GAAP that are disclosed in note 26 to the financial statements included in the 2004 Form 20-F and the financial statements included in Endesa's 2003 annual report on Form 20-F (the "2003 Form 20-F"). These revisions relate to the reclassification of certain preferred stock issued by Endesa Capital Finance LLC from minority interests to long-term debt (pages F-120 and F-121 of the 2004 Form 20-F) and the effect in sales of the de-consolidation and application of the equity method to Endesa's investments in Endesa Italia, S.R.L. (pages F-67 and F-68 of the 2003 Form 20-F) and Nuclenor, S.A. (pages F-119 and F-120 of the 2004 Form 20-F). In addition, we have corrected the name of a line item ("operating income") in the U.S. GAAP portion of the table on page 3 of the 2004 Form 20-F. These revisions do not affect Endesa's net income or stockholders' equity under U.S. GAAP or the financial statements in the 2004 Form 20-F.

This amendment does not affect any of the information under Spanish GAAP included in the 2004 Form 20-F.

This Form 20-F/A consists of a cover page, this explanatory note, amendments to Items 3.A and 19(a) of the 2004 Form 20-F, the signature page and the required certifications of Endesa's principal executive officer and its principal financial officer.

Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, amend or update the information in Item 3.A or 19(a), or any other Item, of the 2004 Form 20-F or reflect any events that have occurred after the 2004 Form 20-F was filed on June 30, 2005.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

Selected Consolidated Financial Information

The following table presents selected consolidated financial data of Endesa, S.A. You should read this table in conjunction with “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements beginning on page F-1. The consolidated income statement data for each of the three years in the period ended December 31, 2004 and the consolidated balance sheet data of December 31, 2004 and 2003 set forth below have been derived from, and are qualified in their entirety by reference to, our audited consolidated financial statements and notes thereto appearing elsewhere in this annual report. Our audited consolidated financial statements have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP. See Note 26 to our consolidated financial statements. The principles of consolidation are described in Note 3 to our consolidated financial statements. The consolidated income statement data for each of the two years in the period ended December 31, 2001 and the consolidated balance sheet data as of December 31, 2002, 2001 and 2000 set forth below have been derived from our audited consolidated financial statements, which are not included herein.

	Year Ended December 31,				
	2000	2001	2002	2003	2004
	(millions of euros, except share and ADS data)				
CONSOLIDATED INCOME STATEMENT DATA					
Amounts in accordance with Spanish GAAP:					
Net sales	15,264	15,576	16,739	16,239	17,642
Operating income	3,061	3,175	3,582	3,144	3,242
Ordinary income	1,699	1,046	1,500	2,150	2,087
Consolidated income before taxes	2,612	1,625	1,571	2,427	2,233
Net income	1,407	1,479	1,270	1,312	1,379
Dividends	688	723	723	744	782
Net income per ordinary share or ADS ⁽¹⁾	1.33	1.40	1.20	1.24	1.30
Dividends per ordinary share or ADS (euro) ⁽²⁾	0.65	0.68	0.68	0.70	0.74
Dividends per ordinary share or ADS(\$) ^{(2) (5)}	0.61	0.61	0.72	0.89	0.91
Basic and diluted net income per ordinary share or ADS ⁽¹⁾	1.33	1.40	1.20	1.24	1.30
Weighted average number of ordinary shares outstanding (in thousands)	1,058,752	1,058,752	1,058,752	1,058,752	1,058,752
Amounts in accordance with U.S. GAAP:					
Net sales ⁽⁶⁾	11,237	11,588	11,100	10,755	13,317
Operating income ⁽⁷⁾	3,107	3,101	3,736	3,046	3,342
Net income	950	1,034	1,545	1,419	1,576
Net income per ordinary share or ADS ⁽¹⁾	0.90	0.98	1.46	1.34	1.49
Basic and diluted net income per ordinary share or ADS ⁽¹⁾	0.90	0.98	1.46	1.34	1.49

At December 31,				
2000	2001	2002	2003	2004
(millions of euros)				

CONSOLIDATED BALANCE SHEET DATA

Amounts in accordance with Spanish GAAP:

Utility plant, net	30,413	30,152	27,741	26,962	29,162
Financial investments	5,930	7,037	7,451	6,159	5,584
Total assets	48,003	50,187	48,176	46,047	48,031
Long-term debt ⁽³⁾	19,188	22,700	19,786	17,582	17,558
Minority interests	4,191	3,762	3,175	4,945	5,711
Stockholders' equity	8,638	8,656	8,043	8,801	9,477
Capital stock ⁽⁴⁾	1,271	1,271	1,271	1,271	1,271

Amounts in accordance with U.S. GAAP:

Utility plant, net	28,346	28,678	23,988	25,932	28,295
Total assets	47,247	50,228	44,954	46,364	49,181
Long-term debt	19,290	23,222	20,141	19,262 ⁽⁶⁾	19,344 ⁽⁶⁾
Minority interests	4,369	4,435	2,496	3,837 ⁽⁶⁾	4,683 ⁽⁶⁾
Stockholders' equity	9,428	9,052	8,594	9,409	10,181

- (1) Per ordinary share and per ADS data has been computed based on the weighted average number of ordinary shares outstanding for the periods presented. Each ADS represents one ordinary share.
- (2) In respect of the years indicated.
- (3) Long-term debt does not include current maturities. See Note 16 to our consolidated financial statements.
- (4) Capital stock does not include long-term debt or redeemable preferred stock.
- (5) Computed using the noon buying rate for U.S. dollars on December 31 of each of 2000, 2001, 2002 and 2003 for purposes of such years and on June 8, 2005 for purposes of 2004.
- (6) This amount differs from that included in Endesa's Form 20-F annual report for 2004 (as filed on June 30, 2005) because it has been revised to correctly consider the differences between Spanish GAAP and U.S. GAAP disclosed in note 26 to the financial statements in Endesa's Form 20-F annual reports for 2004 and 2003.
- (7) The name of this line item has been corrected; however, the amounts have not changed.

Exchange Rates

Effective January 1, 1999, the following 11 European Union member states adopted the euro as a common currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain. They also established fixed conversion rates between their respective former sovereign currencies and the euro. On January 1, 2001, Greece joined the European Economic and Monetary Union. The exchange rate at which the Spanish peseta had been irrevocably fixed against the euro is Ptas 166.386 = €1.00. On January 1, 2002, the participating member states began issuing new euro-denominated bills and coins for use in cash transactions. As of March 1, 2002, the participating member states have withdrawn the bills and coins denominated in their respective former currencies from circulation, and they are no longer legal tender for any transactions.

The Federal Reserve Bank of New York no longer quotes a noon buying rate for the currencies of any of the participating member states, including Spain. The noon buying rate for the euro on June 8, 2005 was \$1.2320 = €1.00 and on June 28, 2005 was \$1.2078 = €1.00.

The following tables set forth, for the periods and dates indicated, certain information concerning the noon buying rate for euro expressed in U.S. dollars per euro.

<u>Calendar Period</u>	<u>Noon Buying Rate</u>			
	<u>Period End</u>	<u>Average(1)</u>	<u>High</u>	<u>Low</u>
Year ended December 31, 2000	0.9388	0.9207	1.0335	0.8270
Year ended December 31, 2001	0.8901	0.8909	0.9535	0.8370
Year ended December 31, 2002	1.0485	0.9495	1.0485	0.8594
Year ended December 31, 2003	1.2597	1.1411	1.2597	1.0361
Year ended December 31, 2004	1.3538	1.2478	1.3625	1.1801

(1) The average of the noon buying rates on the last day of each month during the relevant period.

<u>Calendar Period</u>	<u>Noon Buying Rate</u>		
	<u>Period End</u>	<u>High</u>	<u>Low</u>
Month ended January 31, 2005	1.3049	1.3476	1.2954
Month ended February 28, 2005	1.3274	1.3274	1.2773
Month ended March 31, 2005	1.2969	1.3465	1.2877
Month ended April 30, 2005	1.2919	1.3093	1.2819
Month ended May 31, 2005	1.2349	1.2936	1.2349
Month ended June 30, 2005 (through June 24)	1.2088	1.2320	1.2035

Unless otherwise indicated, where this annual report provides translations into euro of amounts denominated in or resulting from transactions effected in currencies other than the euro, the conversion has been effected at the relevant exchange as published by the Spanish Central Bank.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our ordinary shares listed on the Spanish stock exchanges and, as a result, the market price of our American depositary shares (ADSs), which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of American depositary receipts (ADRs) on conversion by the depositary of cash dividends (if any) paid in euro on the underlying ordinary shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of our consolidated subsidiaries are denominated (principally the Chilean peso, the Colombian peso, the Argentine peso, the Brazilian real, the Peruvian nuevo sol and the U.S. dollar). See "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

ITEM 19. EXHIBITS

(a) List of Financial Statements

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SIGNATURE

The Registrant certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ENDESA, S.A.

By: /s/ JOSÉ LUIS PALOMO ALVAREZ

Name: José Luis Palomo Alvarez

Title: Chief Financial Officer

Date: October 28, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Endesa, S.A.:

We have audited the accompanying consolidated balance sheets of Endesa, S.A. and Subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2002, 2003 and 2004 financial statements of Empresa Nacional de Electricidad, S.A. (Endesa Chile) and some of its Subsidiaries and the 2002 financial statements of Empresa Distribuidora Sur, S.A. (Edesur), which statements reflect total assets constituting 7.7% and 9.7%, respectively, of consolidated total assets as of December 31, 2003 and 2004, and net sales constituting 5.2%, 3.2% and 4.7%, respectively, of consolidated net sales for the years ended December 31, 2002, 2003 and 2004, respectively. Additionally we did not audit such companies' figures prepared according to accounting principles generally accepted in the United States of America ("US GAAP") (see Note 26) which total assets constitute 7.6% and 9.5% of the U.S. GAAP consolidated total assets as of December 31, 2003 and 2004, respectively, and which net sales constitute 5.2%, 3.2% and 4.7% of U.S. GAAP consolidated net sales for the years ended December 31, 2002, 2003 and 2004, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Empresa Nacional de Electricidad, S.A. (Endesa Chile) and some of its Subsidiaries and Empresa Distribuidora Sur, S.A. (Edesur) is based solely on the reports of such other auditors.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures (including the conversion of the financial statements of Endesa Chile Group and Edesur to generally accepted accounting principles in Spain) in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Endesa, S.A. and Subsidiaries as of December 31, 2003 and 2004, and the results of their operations for each of the three years ended December 31, 2002, 2003 and 2004, in conformity with accounting principles generally accepted in Spain.

Accounting principles generally accepted in Spain vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended December 31, 2004 and the determination of shareholders' equity as of December 31, 2003 and 2004, to the extent summarized in Note 26. The Note 26.27 – "Classification difference and other" has been restated to include an additional explanation for the difference in accounting for certain purchases and sales of energy between Spanish GAAP and US GAAP.

Our audits also comprehended the translation of Euro amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3-a. Such U.S. dollar amounts are presented solely for the convenience of readers in the United States of America.

DELOITTE, S.L.

Madrid, Spain

March 9, 2005, except for Notes 25 and 26, as to which the date is June 8, 2005 and Note 26.27, as to which the date is October 27, 2005, as to the effects of the restatement discussed in such note.

To the Board of Directors and Shareholders of
Empresa Nacional de Electricidad S.A. (Endesa-Chile) and subsidiaries:

We have audited the accompanying consolidated balance sheets of Endesa-Chile and subsidiaries (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of certain subsidiaries, which statements reflect total assets representing 49.61 percent and 38.87 percent as of December 31, 2003 and 2004, respectively, and total revenues representing of 31.93 percent, 39.38 percent and 38.78 percent for each of the three years in the period ended December 31, 2002, 2003 and 2004, respectively. We also did not audit the financial statements of certain investments accounted for under the equity method, which value represented 1.07 percent and 0.18 percent of total consolidated assets as of December 31, 2003 and 2004, respectively, and equity in their net results represented (61.49) percent, 14.87 percent and 0.74 percent of the consolidated net income for each of the years in the period ended December 31, 2002, 2003 and 2004, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Endesa-Chile and subsidiaries at December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Chile, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 33 to the consolidated financial statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

ERNST & YOUNG LIMITADA

Santiago, Chile
January 21, 2005
(except for Notes 31 and 33 for which the date is May 31, 2005)

Firma miembro de Ernst & Young Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
EMPRESA DISTRIBUIDORA SUR S.A.
(EDESUR S.A.)

We have audited the balance sheet of EDESUR S.A. (an Argentine corporation) as of December 31, 2002, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, all expressed in U.S. dollars (not presented separately herein). Those financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on those financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above (not presented separately herein) present fairly, in all material respects, the financial position of EDESUR S.A. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected shareholders' equity as of December 31, 2002 and the results of operations for the year then ended to the extent summarized in Note 29 of the Notes to the financial statements.

Buenos Aires, Argentina
February 7, 2003

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
(Member Firm of Ernst & Young Global)

EZEQUIEL A. CALCIATI
Partner

Miembro de Ernst & Young, Global



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(English translation of the report originally issued in Spanish)

To the President and Board of Directors of
Endesa Argentina S.A.

We have audited the consolidated balance sheets of Endesa Argentina S.A. and Subsidiaries (the "Company") as of December 31, 2003 and 2004 and the consolidated statements of operations and cash flows for each of the three years in the period ended December 31, 2004 (not presented separately herein). These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of Endesa Argentina S.A. and subsidiaries as of December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2004 and the determination of stockholders' equity at December 31, 2003 and 2004, to the extent summarized in Note 39

Buenos Aires, January 20, 2005, except for Note 39 for which the date is May 2, 2005.

DELOITTE & Co. S.R.L.

Carlos A. Lloveras
(Partner)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Translation of a report originally issued in Spanish)

To the Board of Directors and Shareholders of
Endesa de Colombia S.A.

We have audited the consolidated balance sheet of Endesa de Colombia S.A. and subsidiaries (the "Company") as of December 31, 2003, and the related statements of income and cash flows for the years ended December 31, 2003 and 2002, all expressed in thousands of constant Chilean pesos. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Chile and in accordance with the Standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the consolidated financial position of Endesa de Colombia S.A. and subsidiaries as of December 31, 2003 and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from generally accepted accounting principles in the United States of America. The application of the latter would have affected the determination of net income for the years ended December 31, 2003 and 2002 and the determination of stockholders' equity at December 31, 2003, to the extent summarized in Note 18.

Carlos Eduardo Tovar
Bogotá, Colombia, January 15, 2004, except for
Note 18 for which the date is April 30, 2004

DELOITTE AND TOUCHE LTDA.

Audit.Tax.Consulting.Financial Advisory

Una firma miembro de
Deloitte Touche Tohmatsu



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Translation of a report originally issued in Spanish)

To the Board of Directors and Shareholders of
Central Hidroeléctrica de Betania S.A. E.S.P. and Subsidiaries:

We have audited the consolidated balance sheets of Central Hidroeléctrica de Betania S.A. E.S.P. and Subsidiaries (the "Company") as of December 31, 2004 and 2003 and the related consolidated statements of income and cash flows for the years then ended, all expressed in thousands of constant Chilean pesos (not separately presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Hidroeléctrica de Betania S.A. E.S.P. and its Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the two years in the period ended December 31, 2004 and the determination of stockholders' equity and financial position at December 31, 2004 and 2003, to the extent summarized in Note 27.

Carlos Eduardo Tovar
Bogotá, Colombia, January 14, 2005,
except for Note 27 for which the date is May 2,
2005

DELOITTE & TOUCHE LTDA.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Centrais Elétricas Cachoeira Dourada S.A.
Cachoeira Dourada—GO, Brazil

We have audited the balance sheet of Centrais Elétricas Cachoeira Dourada S.A. as of December 31, 2003, and the related statements of operations and cash flows for the years ended December 31, 2003 and 2002, all expressed in United States dollars (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centrais Elétricas Cachoeira Dourada S.A. as of December 31, 2003, and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income (loss) for the years ended December 31, 2003 and 2002, and the determination of shareholders' equity as of December 31, 2003, to the extent summarized in Note 21 to the financial statements.

January 17, 2004



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CIEN—Companhia de Interconexão Energética
Rio de Janeiro—R.J. Brazil

1. We have audited the accompanying balance sheets of CIEN—Companhia de Interconexão Energética as of December 31, 2003 and 2002, and the related statements of income and cash flows for the years then ended, all expressed in United States dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CIEN—Companhia de Interconexão Energética S.A. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.
4. Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 23 to the financial statements.
5. As discussed in Note 24, the accompanying financial statements have been restated.

January 17, 2004 (except for the restatements mentioned in paragraph 5, for which the date is May 2, 2005)

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of
CIEN—Companhia de Interconexão Energética:

We have audited the accompanying consolidated balance sheets of Companhia de Interconexão Energética S.A.—CIEN and its subsidiaries (“the Company”) as of December 31, 2004 and the related consolidated statements of income, changes in shareholders’ equity and cash flows for the year then ended, all expressed in thousands of United States dollars. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Interconexão Energética S.A.—CIEN and its subsidiaries as of December 31, 2004 and the results of their operations and their cash flow for the year then ended in conformity with accounting principles generally accepted in Chile, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 24 to the consolidated financial statements).

São Paulo, May 3, 2005.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Aurivaldo Coimbra de Oliveira
Accountant CRC-1PE009428/O-4-S-SP

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

	2003	2004	2004
	Millions of euros		Millions of dollars (Note 3.a)
ASSETS			
FIXED AND OTHER NONCURRENT ASSETS	33,678	35,129	43,278
Start-up expenses	14	8	10
Intangible assets (Note 8)	526	375	462
Intangible assets and rights	1,025	894	1,101
Allowances and accumulated amortization	(499)	(519)	(639)
Utility plant (Note 9)	26,962	29,162	35,927
Land and structures	1,893	2,283	2,813
Electricity plant	46,106	50,080	61,698
Other fixtures, machinery, tools, furniture and other tangible fixed assets	1,647	1,829	2,253
Electricity plant in progress	2,364	2,210	2,723
Other construction work in progress	101	151	186
Accumulated depreciation of electricity plant	(23,003)	(24,923)	(30,705)
Other accumulated depreciation and allowances	(2,146)	(2,468)	(3,041)
Long-term investments (Note 10)	6,159	5,584	6,879
Investments accounted for by the equity method	1,519	1,615	1,990
Loans to companies accounted for by the equity method	232	47	58
Long-term investment securities	573	375	462
Other loans	1,194	996	1,227
Prepaid taxes (Note 17)	2,759	2,619	3,226
Allowances	(118)	(68)	(84)
Parent Company shares (Note 12)	17	—	—
CONSOLIDATION GOODWILL (Note 7)	4,584	4,413	5,437
DEFERRED CHARGES (Note 6)	677	667	822
CURRENT ASSETS	7,108	7,822	9,637
Inventories (Note 11)	644	806	993
Accounts receivable	4,096	4,465	5,500
Trade receivables for sales and services	2,951	3,427	4,221
Receivable from companies accounted for by the equity method	17	51	63
Other accounts receivable	1,366	1,237	1,524
Allowances	(238)	(250)	(308)
Short-term investments	2,139	2,205	2,717
Short-term investment securities	194	310	382
Loans to companies accounted for by the equity method	15	142	175
Other loans	1,940	1,774	2,186
Allowances	(10)	(21)	(26)
Cash	183	304	375
Prepaid expenses	46	42	52
TOTAL ASSETS	46,047	48,031	59,174

The accompanying Notes 1 to 26 are an integral part of these consolidated balance sheets.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003—(Continued)

	<u>2003</u>	<u>2004</u>	<u>2004</u>
	<u>Millions of euros</u>		<u>Millions of dollars (Note 3.a)</u>
STOCKHOLDERS' EQUITY AND LIABILITIES			
STOCKHOLDERS' EQUITY (Note 12)	8,801	9,477	11,676
Capital stock	1,271	1,271	1,566
Additional paid-in capital	1,376	1,376	1,695
Revaluation reserve	1,714	1,714	2,112
Other reserves of the Parent Company	3,309	3,462	4,266
Unrestricted reserves	2,831	3,008	3,707
Restricted reserves	478	454	559
Reserves at fully or proportionally consolidated companies	3,062	3,492	4,302
Reserves at companies accounted for by the equity method	69	75	92
Translation differences	(3,032)	(3,004)	(3,701)
Income attributable to the Parent Company	1,312	1,379	1,699
Consolidated income	1,877	1,833	2,258
Income attributable to minority interests (Note 13)	(565)	(454)	(559)
Interim dividend paid during the year	(280)	(288)	(355)
MINORITY INTERESTS (Note 13)	4,945	5,711	7,036
NEGATIVE CONSOLIDATION GOODWILL	13	12	15
DEFERRED REVENUES (Note 14)	1,512	2,149	2,648
Capital subsidies	1,029	1,217	1,500
Other deferred revenues	483	932	1,148
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 15)	4,502	4,369	5,382
Provisions for pensions and similar obligations	311	308	379
Other provisions	4,191	4,061	5,003
LONG-TERM DEBT (Note 16)	17,582	17,558	21,630
Debentures and other marketable debt securities	9,568	9,582	11,805
Payable to credit institutions	4,254	5,071	6,247
Other payables	3,750	2,903	3,576
Capital payments payable	10	2	2
CURRENT LIABILITIES	8,692	8,755	10,787
Debentures and other marketable debt securities (Note 16)	2,664	2,628	3,238
Payable to credit institutions (Note 16)	1,763	1,025	1,263
Payable to companies accounted for by the equity method	18	24	30
Trade accounts payable	2,385	2,970	3,659
Other nontrade payables (Note 16)	1,840	2,077	2,559
Operating allowances	13	13	16
Deferred expenses	9	18	22
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	46,047	48,031	59,174

The accompanying Notes 1 to 26 are an integral part of these consolidated balance sheets.

CONSOLIDATED STATEMENTS OF INCOME FOR 2004, 2003 AND 2002

	Millions of Euros			Millions of Dollars
				(Note 3.a)
	2002	2003	2004	2004
OPERATING REVENUES	17,238	16,644	18,065	22,256
Net sales (Note 18)	16,739	16,239	17,642	21,735
a) Sales	16,197	15,750	16,978	20,917
b) Services	452	362	462	569
c) Remuneration for the transition to competition	90	127	202	249
Expenses capitalized (Note 4-b)	320	161	199	245
Other operating revenues	179	244	224	276
OPERATING EXPENSES	13,656	13,500	14,823	18,262
Procurements	9,425	9,309	10,214	12,584
a) Power purchased	6,221	6,085	6,095	7,509
b) Cost of raw materials and other supplies	2,461	2,409	3,069	3,781
c) Power transmission and other external expenses	743	815	1,050	1,294
Personnel expenses	1,251	1,186	1,288	1,587
a) Wages, salaries, and similar expenses	951	906	1,012	1,247
b) Employee welfare expenses	300	280	276	340
Depreciation and amortization expenses	1,696	1,606	1,643	2,024
Variation in operating allowances	2	57	52	64
Other operating expenses	1,282	1,342	1,626	2,003
OPERATING INCOME	3,582	3,144	3,242	3,994
FINANCIAL REVENUES	651	915	492	607
Revenues from equity investments	26	11	16	20
Other financial revenues	397	360	370	456
Exchange gains (Note 4-g)	228	544	106	131
FINANCIAL EXPENSES	2,285	1,650	1,419	1,749
Financial expenses	1,499	1,484	1,317	1,623
Variation in investment valuation allowances	9	5	4	5
Exchange losses (Note 4-g)	777	161	98	121
FINANCIAL LOSS	(1,634)	(735)	(927)	(1,142)
Equity in the income of companies accounted for by the equity method	134	84	91	112
Equity in losses of companies accounted for by the equity method	(227)	(54)	(7)	(9)
Amortization of consolidation goodwill (Note 7)	(355)	(289)	(312)	(384)
ORDINARY INCOME	1,500	2,150	2,087	2,571
NONOPERATING REVENUES (Note 18)	1,745	1,199	818	1,008
Gains on fixed assets	69	728	48	59
Gains on disposals of investments in fully or proportionally consolidated companies	1,066	55	21	26
Gains on disposals of investments in companies accounted for by the equity method	19	47	102	126
Capital subsidies transferred to income for the year	25	46	44	54
Nonoperating revenues and income	566	323	603	743
NONOPERATING EXPENSES (Note 18)	1,674	922	672	828
Losses on fixed assets	26	35	33	40
Variation in allowances for utility plant and intangible assets	143	8	(1)	(1)
Losses on disposals of investments in companies accounted for by the equity method	—	8	4	5
Nonoperating expenses and losses	1,505	871	636	784
NONOPERATING INCOME	71	277	146	180
CONSOLIDATED INCOME BEFORE TAXES	1,571	2,427	2,233	2,751
Corporate income tax (Note 17)	437	550	400	493
CONSOLIDATED INCOME FOR THE YEAR	1,134	1,877	1,833	2,258
Income attributed to minority interests	(136)	565	454	559
INCOME FOR THE YEAR ATTRIBUTED TO THE PARENT COMPANY	1,270	1,312	1,379	1,699
Net earnings per share (euros)	1.2	1.24	1.30	1.60

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of income.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements

1. Description of the Group

Endesa, S.A. and its subsidiaries form the Endesa Group, whose corporate purpose is to carry on activities in the electricity business in all its various industrial and commercial areas; the exploitation of primary energy resources of all types; the provision of industrial services, particularly in the areas of telecommunications, water and gas and those preliminary or complementary to the business activities composing the Group's corporate purpose, and the management of the corporate Group comprising investments in other companies. The Group may carry on the business activities composing its corporate purpose in Spain and abroad directly or through its holdings in other companies.

The "Endesa Group Companies" section in the Exhibit to these notes to consolidated financial statements contains a list of the companies composing the Endesa Group.

2. Corporate restructuring and scope of consolidation

In August 2003 ELESUR sold all the shares of ENERSIS owned by it to ENDESA Internacional, S.A. Also, in December 2003 ELESUR sold more ENERSIS shares to ENDESA Internacional S.A., but in this case the shares had originally been owned by Chispa, which delivered them to ELESUR in December 2003 as payment for a capital reduction performed by that company.

Following these transactions, all the ENERSIS shares that had previously been owned by the ENDESA Group were owned by ENDESA Internacional, S.A. as the head of ENDESA's corporate group in Latin America. Progress was thus made towards clarifying and simplifying the corporate structure of the Group.

Also, in 2003 ELESUR sold to ENDESA Internacional, S.A. its directly-owned holdings in CERJ and EDESUR.

In addition, in January 2003 ENDESA Diversificación, S.A. was partially spun off through the contribution of its ownership interest in ENDESA Gas to ENDESA Red. Following this transaction, ENDESA Gas was integrated from the organizational standpoint in the Spanish electricity business.

Since these transactions were intercompany transactions, the consolidated financial statements do not include any gain or loss arising therefrom.

The main changes in the scope of consolidation in 2003 were as follows:

1. Endesa Capital Finance, LLC was fully consolidated because ENDESA holds all the voting rights thereat. This company issued preferred shares amounting to €1,500 million (see Note 13).
2. From January 1, 2003, Río Maipo was no longer fully consolidated as a result of the sale by ENERSIS of its holding in this company.
3. As a result of the sale of ENDESA's holding in REPSOL, this company ceased to be accounted for by the equity method from the beginning of 2003.
4. MADE Tecnologías Renovables, S.A. ceased to be fully consolidated from July 1, 2003, because all its shares were sold.

The main variations in the scope of consolidation in 2004 were as follows:

In September 2004 ENDESA completed its acquisition of a controlling interest in the French producer SNET, when Endesa Europa acquired an additional 35% holding in this company, giving it a holding of 65%. As a result of the acquisition of the additional holding of 35%, this company, which had been accounted for by the equity method, was fully consolidated from September onwards.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

In June 2004 ENDESA Diversificación sold the 50.55% holding in NETCO REDES owned by it and, accordingly, this company ceased to form part of the Group and, therefore, to be fully consolidated.

Also, in May 2004 ENDESA Diversificación sold the 11.64% holding in AGUAS DE BARCELONA owned by it and, accordingly, this company ceased to be accounted for by the equity method.

Certain companies that despite meeting the requirements for being included in the scope of consolidation were not consolidated in prior years due to their scant materiality for the Group as a whole, as permitted by Royal Decree 1815/1991 approving the rules for the preparation of consolidated financial statements, started to be fully consolidated or accounted for by the equity method in 2004.

The companies in this situation that started to be consolidated in 2004 were as follows:

1. Full consolidation:

- Nueva Nuinsa, S.A.
- Explotaciones Eólicas Saso Plano, S.A.
- Sociedad Eólica de Tarifa, S.A.
- Proyectos Eólicos Valencianos, S.A.
- Inversiones Eléctricas Quillota, S.A.

2. Equity method :

- Minicentrales de Canal Imperial-Gallur, S.L.
- Empresa Mixta de Aguas de Las Palmas, S.A.
- Elcogas, S.A.

3. Basis of presentation and consolidation principles

a) True and fair view

The consolidated financial statements as of December 31, 2004 and 2003, of ENDESA, S.A. (“Endesa” or “the Company”) and its subsidiaries composing the Endesa Group (referred to as a whole as “the Endesa Group” or “the Group”), which were prepared from the individual financial statements of the consolidated companies, are presented in accordance with the revised Corporations Law, the Spanish National Chart of Accounts, Royal Decree 1815/1991 approving the rules for the preparation of consolidated financial statements and Royal Decree 437/1998 approving the rules adapting the Spanish National Chart of Accounts for electric utilities (“the Electricity Industry Chart of Accounts”), and the related implementing regulations. These consolidated financial statements present a true and fair view of the net worth and financial position of the consolidated Group and of the results of its operations and of the funds obtained and applied by it.

Differences between Spanish GAAP and accounting principles generally accepted in the United States of America (“US GAAP”) and their effect on the consolidated net income for each of the three years in the period ended December 31, 2004 and on the stockholders’ equity as of December 31, 2004 and 2003 are set forth in Note 26.

The consolidated financial statements of the Endesa Group and the individual financial statements of Endesa and of the subsidiaries as of December 31, 2004, have not yet been approved by the respective Stockholders’

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Meetings, although it is considered that they will be approved without any changes. The 2003 individual financial statements and, where applicable, the consolidated financial statements of each of the consolidated companies were approved by the respective Stockholders' Meetings.

The financial information expressed in U.S. dollars is presented for the convenience of the readers and is based on the Noon Buying Rate in New York City for cable transfer in euros as certified for customers purposes by the Federal Reserves Bank of New York on June 8, 2005 which was 0.8117 euros for each dollar. No representation is made those euros amounts could have been, or could be, converted into U.S dollars at the rate on December 31, 2004 or at any other rate.

b) Consolidation principles

The subsidiaries in which Endesa has direct or indirect holdings exceeding 50% were generally fully consolidated, unless they were scantily material with respect to giving a true and fair view of the Group.

The unlisted companies between 20% and 50% owned by Endesa and the listed companies between 3% and 50% owned by Endesa are accounted for by the equity method, except for Nucleonor which, despite being 50% owned, was, as in prior years, proportionally consolidated because it is a multigroup company. Also, the Economic Interest Groupings in which the Group has material ownership interests were proportionally consolidated in the consolidated financial statements.

The Exhibit to these notes to consolidated financial statements includes a detail of the fully and proportionally consolidated companies, the companies accounted for by the equity method, and their auditors and related information.

The subsidiaries not consolidated in 2004 and 2003 because as a whole they are scantily material with respect to giving a true and fair view of the consolidated financial statements are listed in the Exhibit to these notes to consolidated financial statements and were valued at the lower of cost or market (see Note 4-d). Had these subsidiaries been consolidated, the consolidated assets, liabilities, net worth and income would not have varied significantly.

The operations of Endesa and of the consolidated subsidiaries were consolidated in accordance with the following basic principles:

1. The consolidated financial statements include certain accounting adjustments to unify the accounting principles and procedures applied by the subsidiaries with those applied by the Parent Company. Specifically, this unification was carried out by applying Spanish accounting principles to the accounts of the subsidiaries located outside of Spain.
2. All significant transactions and the related results between the consolidated companies were eliminated in consolidation.
3. The equity of minority interests in the net worth and results of the consolidated subsidiaries is included under the "Minority Interests" caption on the liability side of the consolidated balance sheet and under the "Income (loss) Attributed to Minority Interests" caption in the consolidated statement of income, respectively.
4. The first-time consolidation difference was calculated as the difference between the acquisition cost of the holdings and their underlying book value weighted by the percentage of effective ownership in each year, after the unification of accounting principles. Negative differences are recorded under the

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

“Negative Consolidation Goodwill” caption and are only credited to income in the event of the unfavorable evolution of the results of the investee concerned or of the disposal of the related holding. Positive differences, once the unrealized gains, if any, relating to the assets of the subsidiary have been allocated, are recorded under the “Consolidation Goodwill” caption.

Goodwill is amortized over 20 years, since this is deemed to be the average period over which the investments made will be recovered. Each year the recoverability of the net values recorded is analyzed, and, where appropriate, the adjustments required to adapt the net values to the recoverable value of the goodwill are recorded. Based on estimates of the revenues expected to be generated by the various investments made, as of December 31, 2004, the Group’s directors considered that it would be possible to recover the goodwill recorded in full.

5. The financial statements of foreign companies denominated in foreign currencies were translated to euros as follows: assets and liabilities at the year-end exchange rates, capital stock and reserves at the historical exchange rates and revenues and expenses at the average exchange rates for the period in which they arose. The resulting translation difference, net of the related tax effect, was included under the “Stockholders’ Equity—Translation Differences” caption on the liability side of the consolidated balance sheet (see Notes 12 and 17).

The effect of the translation differences on the assets and liabilities in the consolidated balance sheet is included in the related tables in the notes to consolidated financial statements in the “Other” column.

In accordance with standard practice in Spain, the accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated subsidiaries and of the investees accounted for by the equity method to the Parent Company’s accounts, since it is considered that these reserves will be used to finance the operations of each company and that those that may be distributed would not give rise to a material additional tax adjustment.

4. Valuation standards

The main valuation methods used in preparing the accompanying consolidated financial statements, in accordance with the Spanish National Chart of Accounts and the Electricity Industry Chart of Accounts, were as follows:

a) Intangible assets

Intangible assets are valued at cost and are generally amortized over five years.

The hydroelectric power plants are operated under the temporary administrative concession system, under which at the end of the concession period the facilities must revert to the State in good working order. Also, the mines are operated under the administrative concession system for periods of at least 30 years, which may be extended subject to compliance with current legal requirements. When it is considered that additional costs will have to be incurred at the concession expiration date, provisions are recorded on a straight-line basis over the concession term and the related cost is allocated to the consolidated statement of income.

The directors consider that the allowances recorded are sufficient to meet these costs.

b) Utility plant

Utility plant is carried at cost revalued, in the case of assets in Spain, pursuant to the applicable enabling legislation, including Royal Decree-Law 7/1996 (see Notes 9 and 12).

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The capitalized costs include direct and indirect labor and financial expenses, the latter in the case of projects with a construction period of over one year. In 2004 and 2003, €199 million and €161 million were capitalized in this connection to the “Expenses Capitalized” caption in the accompanying consolidated statement of income, which also includes the nuclear fuel costs capitalized to the “Inventories” caption, since its manufacture and preparation period exceeds one year.

Construction in progress is transferred to operating utility plant when the related trial period has ended, from which time it starts to be depreciated.

The costs of expansion, modernization or improvements leading to increase productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

Replacements or renewals of fixed asset items are recorded as additions to utility plant and the items replaced or renewed are relieved from the accounts.

In accordance with the accrual principle of accounting, periodic maintenance, upkeep and repair expenses are expensed currently. Also, provisions for major repairs are recorded to cater for extraordinary overhauls or repairs of the utility plant. The provisions are recorded based on an annual estimate calculated on the basis of the estimated cost of the next overhaul or repair and the average length of time elapsed since the previous overhaul or repair.

Provisions for utility plant dismantling costs, provided that they are material and they can be estimated reasonably, are recorded on a straight-line basis, and the related cost is charged to the consolidated statement of income from the date on which they can be estimated through the end of their useful life.

The Company’s directors consider that the book value of the assets does not exceed their market value. The market value was calculated on the basis of the future discounted cash flows generated by these assets, including the remuneration for the transition to competition (see Note 9).

c) Depreciation of utility plant

Utility plant is depreciated on the basis of the following years of estimated useful life:

	Years of Estimated Useful Life
Hydroelectric power plants	35 – 65
Fossil-fuel power plants	25 – 40
Nuclear power plants	40
Transmission facilities	40 – 50
Distribution facilities	40 – 50

Based on experience gained in Spain and abroad, in 2004 the estimated useful life of the nuclear power plants was lengthened from 30 to 40 years. This change reduced the depreciation expense for 2004 by €98 million with respect to that for 2003.

In accordance with the legislation applicable to the electricity industry, a portion of the book value of the fixed assets will be recovered through the remuneration for the transition to competition (see Note 6). Consequently, this value is being depreciated, with a charge to operating income, as said remuneration is received, or at least in accordance with the estimated recovery schedule (see Note 6), during the transitional period ending in 2010.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

Pursuant to Royal Decree 1899/1984, Empresa Nacional de Residuos Radiactivos, S.A. (ENRESA) is responsible for the decommissioning of nuclear power plants and the treatment and final disposal of radioactive nuclear waste. ENRESA is funded by contributions of a specific portion of the electricity rate revenues. A contract between ENRESA and the electric utilities was executed on November 30, 1989, to formally document the transfer to ENRESA of responsibility for the treatment and final disposal of nuclear waste. In 2004 the Group estimated the cost to be incurred in the decommissioning of nuclear power plants and the safe storage, treatment and final disposal of the waste until ENRESA assumes responsibility for these plants and, accordingly, it started to record provisions so that these costs would be fully covered at the end of the useful life of the related facilities. €10 million and 0€ million were recorded with a charge to income in this connection in 2004 and 2003.

d) Long-term investments

The companies accounted for by the equity method are valued at the underlying book value corresponding to the Group's percentage of ownership. The net result obtained each year through these companies is recorded under the "Share in the Income/Share in Losses of Companies Accounted for by the Equity Method" captions in the consolidated statement of income.

The other long-term investments, regardless of the percentage of ownership, are presented individually at the lower of cost, adjusted, where applicable, in accordance with the applicable legislation, or market. In the case of unlisted companies, the market value is taken to be the underlying book value of the investment, adjusted by the amount of the unrealized gains disclosed at the time of the acquisition and still existing at the balance-sheet date and, in the case of listed companies, the market value is taken to be the lower of average market price in the last quarter or market price at year-end.

Unrealized losses (cost higher than market value at year-end) are recorded under the "Allowances" caption on the asset side of the accompanying consolidated balance sheet.

e) Inventories

Inventories are valued at the lower of weighted average cost or market (see Note 11).

Nuclear fuel is recorded at acquisition cost, which includes the capitalized financial expenses assigned to its financing until it is loaded into the reactor, and the cost is allocated to income on the basis of the amount burnt during the year.

f) Capital subsidies

The subsidies collected in connection with fixed assets are recorded as deferred revenues under the "Capital Subsidies" caption and are recognized annually by the straight-line method on the basis of the useful lives of the facilities to which they relate (see Note 14).

The Endesa Group has complied with all the conditions established by the official agencies that granted the subsidies, or is in a position to comply with them in the future.

g) Translation of foreign currency balances

Foreign currency balances are translated to euros at the exchange rates prevailing at the transaction date. As of December 31 each year, the outstanding balances of these transactions are reflected in the consolidated balance sheet at the exchange rates ruling as of that date.

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Exchange differences arising as a result of the adjustment of the aforementioned balances to year-end exchange rates are classified by due date and currency and are recorded in accordance with the following general method:

1. Negative differences and realized positive differences or positive differences that offset negative differences arising in the year or in prior years are taken to income under the “Exchange Losses” or “Exchange Gains” captions, as appropriate, in the consolidated statement of income.
2. Unrealized exchange gains are recorded under the “Deferred Revenues” caption on the liability side of the consolidated balance sheet until they are realized.

Through December 31, 2003, the Company arranged hedging transactions for its investments in foreign companies based on the arrangement of financing in the functional currency of the country in which the investment was held or in a currency that was highly correlated with the related functional currency, which in all cases was the U.S. dollar. In 2003 the net exchange gains allocated to the “Translation Differences” caption amounted to €281 million, net of the related tax effect and of the portion relating to minority interests. Due to the negative trend in the correlation percentages, since January 1, 2004, the Group has no longer applied this policy of hedging the exchange risk relating to its investments in foreign companies.

On January 1, 2004, the Group established a policy of hedging the portion of the revenues of the Latin American companies that are directly linked to the performance of the U.S. dollar, through the obtainment of financing in the latter currency.

The exchange differences arising on the debt in U.S. dollars considered to be a hedging instrument are recorded directly against equity, and are allocated to income as additions to or reductions of operating revenues as the exchange rate fluctuations with respect to the U.S. dollar impact revenues, so that the two effects are mutually offset. The average period over which these exchange differences are allocated to income is ten years.

In 2004 exchange gains amounting to €58 million were recorded in this connection with a credit to stockholders' equity and €38 million were recorded with a credit to minority interests. Additionally, €7 million were recorded in this connection as a reduction of operating revenues

h) Monetary adjustment

The companies located in countries where local accounting legislation requires that inflation adjustments be recorded (Chile, Colombia and Peru) adjust for the effect of inflation, from the date of their inclusion in the Group through year-end, the value of their nonmonetary assets and liabilities, including their stockholders' equity and minority interests balances, against the balance of the “Monetary Adjustment” account under the “Other Financial Revenues” caption in the accompanying consolidated statement of income. Monetary assets and liabilities are maintained at their face value and no adjustments are made thereto. The balance of the “Monetary Adjustment” account in 2004 amounted to €203 million and €110 million in 2003.

The effect of the monetary adjustment on the assets and liabilities is included in the respective notes in the “Other” column in the tables showing the variations during the year.

i) Provisions for obligations to employees

Certain Group companies have obligations to their employees in relation to supplementary pension payments and to severance pay due to labor force reduction plans, including most notably those relating to the Group companies in Spain, which are described below:

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

a) Supplementary pension payments

The Spanish Group companies' obligations for supplementary pension payments to their employees vary from one Group company to another. These obligations and commitments consist of both defined-benefit and defined-contribution arrangements and are instrumented in pension plans or insurance contracts.

In Spain, under the Framework Agreement dated October 25, 2000, the Endesa Group undertook to include all its new hires in a pension plan with a defined contribution of 3% of the employees' salary for retirement and a defined benefit of two annual salary payments for disability and death of serving employees, as coverage for which the appropriate insurance policies were taken out.

For the employees hired prior to the date of the Framework Agreement, the original systems have been respected, which are practically all mixed systems, i.e. defined-contribution arrangements for retirement and defined-benefit arrangements for disability and death of serving employees, as coverage for which the appropriate insurance policies were taken out. The contribution percentages and the definition of the risk benefits are the features that distinguish one system from another.

However, there are two large groups of employees who were hired prior to the date of the Framework Agreement (of a closed number in that no new employees can be included) who are not included in the general system of defined contributions for retirement and defined benefits for disability and death described above:

1. Electricity employees of the former Endesa: defined-benefit pensions for retirement, death and disability. The predetermined nature of the benefits for retirement and their full coverage eliminate in full any risk relating thereto. The other benefits are also guaranteed through insurance contracts. Therefore, except as regards the death of retired employees, for which the related insurance policies have also been taken out, the monitoring required for this system does not differ significantly from that required for the mixed plans described above.
2. Feinsa/Enher/HidroEmpordá employees: defined-benefit pension plan with annual salary growth tied to the increase in the CPI. This plan is treated exactly in the same way as a defined-benefit system, which is valued on the basis of the following assumptions:
 - Annual interest rate: 4%.
 - Annual pensionable salary growth rate by category: 2.3%.
 - Mortality table for non-disabled retired employees: GRM/F- 95.
 - Mortality table for serving employees: EVK90 mortality table for serving employees.
 - Criterion for determining the accrued obligation: hire-age method.
 - Retirement age: 60 or 65 years, depending on whether or not the conditions for early retirement are met.

Through December 31, 2003, the pensionable salary growth rate used was 2%; however, in 2004 this rate was increased to 2.3%, which gave rise to a cost of €20 million.

The Group has recorded a provision of €87 million to cover the difference between the CPI assumption used for the calculation of the obligations and that taken into account in the externalizations made. The provisions for the externalized amounts were retired from the accompanying consolidated balance sheet.

Under the Spanish legislation, accrued pension commitments had to be externalized, which the Endesa Group duly did. In the case of pension plans, pursuant to the related rebalancing plans, the funds are being transferred over a period of ten years, as provided for in Royal Decree 1588/1999. The commitments

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instrumented in the form of insurance policies are being externalized in some cases through the payment of the related premium in cash and in others using the financing envisaged in Royal Decree 1588/1999.

In 1999 the Endesa Group recalculated the value of its obligations to serving employees using a discount rate of 4% and GRM/F-95 tables. In accordance with a Ministry of Economy and Finance Order dated December 29, 1999, the Group deferred over 15 years the recognition of the effects of this calculation. This effect, which amounts to €78 million and €90 million, is recorded under the “Deferred Charges” caption on the asset side of the accompanying consolidated balance sheet, and an amortization expense of €12 million and €12 million was recorded with a charge to 2004 and 2003 income in this connection.

The annual contributions to the pension plans are recorded directly with a charge to the “Personnel Expenses” caption in the consolidated statement of income. The contributions made in this connection in 2004 and 2003 amounted to €40 million and €45 million.

b) Labor force reduction plans

The Group has in progress labor force reduction plans, basically in Spain. The plans in Spain fall within the labor force reduction plans already approved.

These plans envisage the possibility of employees taking early retirement. The plans guarantee that the employees will receive a given amount during their early retirement period and, in some cases, a lifelong pension once they have reached early retirement age if their social security pensions have been reduced.

There are currently two types of plan in force:

1. Labor force reduction plans approved at the former companies prior to the corporate restructuring in 1999.

The employees are entitled, based on the labor force reduction plan approved at each company, to take early retirement between the ages of 50 and 55, in the period from 1998 to 2005.

The total number of employees considered in this connection is 5,534, of whom 465 have not yet taken early retirement, which they can take through December 31, 2005.

2. Voluntary redundancy plan approved in 2000.

The employees are entitled to take voluntary redundancy at the age of 60, provided that they have reached the age of 50 before December 31, 2005, and that they have at least ten years of service at that date. Employees aged between 50 and 60 are also entitled to take voluntary redundancy provided that there is an agreement between the employee and the company concerned.

The total number of employees considered in this connection is 4,673, of whom 1,575 are currently in a situation of early retirement.

The economic conditions applicable to the employees who have availed themselves of these plans are basically as follows:

The company will pay the employee, from the date of termination of his contract and through the first date of retirement that is possible after the unemployment benefits have come to an end and, at the very latest, until the ex-employee in question, reaching retirement age, vests the right to severance pay based on his last annual salary payment, which is updatable on the basis of the annual increase in the CPI.

The unemployment benefits and subsidies received, as well as any other amounts of official benefits for early retirement received prior to the date of definitive retirement, will be deducted from the resulting amounts.

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The Endesa Group has conducted an actuarial study of the provision required to cover these commitments using the following assumptions: GRM/F-95 mortality table, an assumed interest rate of 4% and a CPI increase of 2.3%. Through December 31, 2003, the assumed inflation rate was 2%; however, it was increased to 2.3% in 2004. The accompanying consolidated statement of income includes an expense of €42 million under the “Nonoperating Expenses” caption as a result of this change of assumption.

The amounts recorded in the consolidated balance sheet as of December 31, 2004 and 2003, and the externalizations made cover all the Group’s obligations arising from the commitments made to employees both in Spain and in the other countries in which the Group operates (see Note 15).

j) Other provisions

The provision for third-party liability relates to the estimated amount required for probable or certain third-party liability arising from outstanding obligations of undetermined amount. This provision is recorded when the liability or obligation giving rise to the indemnity or payment arises (see Note 15).

k) Classification of debt

In the accompanying consolidated balance sheet debts maturing in under 12 months from year-end are classified as current liabilities and those maturing at over 12 months as long-term debt.

l) Corporate income tax

Corporate income tax is recorded as a period expense. This expense is calculated on the basis of book income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits. The difference between the corporate income tax expense and the tax payable is due to timing differences in the recognition of the expenses and revenues giving rise to prepaid or deferred taxes (see Note 17).

m) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis. However, in accordance with the accounting principle of prudence, only realized income is recognized at year-end, whereas foreseeable contingencies and losses are recorded as soon as they become known.

n) Customer connection charges

The Group records the amounts received for extension charges as connection charges allocated to fixed assets under the “Deferred Revenues” caption in the consolidated balance sheet, and credits them to income over the years of useful life of the extension facilities financed thereby (see Note 14). The access charges included in the connection charges and the inspection and coupling charges are recognized as period revenues since they are not allocated to any fixed asset.

o) Treasury stock

Since there is no plan for the retirement of the shares of treasury stock of the Parent Company, they are valued at the lower of acquisition cost or underlying book value per the accompanying consolidated balance sheet, and a restricted reserve was recorded in this connection (see Note 12).

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If the cost of the shares of treasury stock is higher than their market value (taken to be the lower of year-end market price or average market price in the last quarter of the year), the provision required to cover this difference is charged to the “Nonoperating Income” caption in the consolidated statement of income. If the underlying book value is lower than the lower of the aforementioned cost or market values, an additional provision is recorded for the difference with a charge to unrestricted reserves (see Note 12).

p) Derivatives and hedging transactions

The Group’s financial derivatives relate mainly to interest rate, exchange rate and electricity and raw material price or supply risk hedging transactions, which are aimed at eliminating or significantly reducing these risks in the underlying hedged transactions. The premiums paid for these derivatives are deferred by the interest method.

The gains or losses arising during the term of these derivatives transactions are allocated to income by the same timing of recognition method as that used to record the gains or losses arising on the underlying transactions hedged by these derivatives.

The Company values open transactions at year-end that are not deemed to constitute hedging transactions, and it recognizes the unrealized losses (cost higher than market price), if any, in the consolidated statement of income.

Exchange differences arising in the year and year-end exchange differences are recorded as described in Note 4-g.

q) Methods used to allocate assets, liabilities, expenses and revenues to the various business activities

In accordance with the applicable legislation, the various activities carried on by the Group were legally unbundled and, accordingly, the assets, liabilities, expenses and revenues have been assigned to the companies engaging in each of these activities. The “Corporate Activities”, which relate mainly to the activities of Endesa, S.A., Endesa Financiación Filiales, S.A. and to certain consolidation adjustments, are included as a separate business activity.

5. Industry regulation

a) Spain

The electricity industry in Spain is basically regulated in Electricity Industry Law 54/1997. The main features of this Law and subsequent implementing regulations are as follows:

1. Electricity is generated on a free-market basis, based on a system of offers tendered by the producers and a system of bids submitted by consumers eligible to choose their power supply source (“eligible consumers”) and by the distributors and retailers.
2. The system’s economic and technical management, transmission and distribution continue to be regulated activities, and their remuneration is established by law in an official list of rates applicable throughout Spain.
3. All consumers of electricity are eligible customers and, therefore, they can freely choose whether to acquire their power under the regulated rate or to buy it in the deregulated market, either directly or through a retailer.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

4. The Electricity Industry Law recognizes the existence of certain costs relating to the transition to a competitive market for the utilities owning the electricity production facilities that as of December 31, 1997, were included in the scope of application of Royal Decree 1538/1987 on the determination of the electricity rate for the electricity service management companies (see Note 6).

Article 12 of the Electricity Industry Law establishes that the activities involved in the supply of electricity carried on in the Balearic and Canary Islands and Ceuta and Melilla will be subject to specific regulations which will address the special nature of their geographical location. In this regard, on December 19, 2003, Royal Decree 1747/2003 was passed. This Royal Decree, which came into force on January 1, 2004, regulates the island and nonmainland electricity systems.

This Royal Decree established compensation payments to cover the costs incurred and the return on the capital invested in order to be able to operate in these areas. The regulations to implement this Royal Decree and establish the methodology for calculating these compensation payments have not yet been passed.

In 2002 the government recognized an account payable to ENDESA for the excess costs relating to the nonmainland systems for 2001 and 2002 amounting to €133 million. This amount will be recovered through the electricity system revenues through 2010, and the collection right can be securitized. The balance receivable in this connection recorded on the asset side of the consolidated balance sheet as of December 31, 2004 and 2003, amounted to €103 million and €116 million, respectively.

Also, in 2004 the Group's directors made a conservative estimate of the additional revenues that could arise from the principles established in the Royal Decree, and recorded an additional revenue of €122 million in this connection in 2004. The Group's directors consider that the definitive amount for 2004 will under no circumstances be lower than the amount recorded.

The electricity rates are set on the basis of the methodology established for the period from January 1, 2003 to December 31, 2010, by Royal Decree 1432/2002.

The aforementioned Royal Decree initially limited the annual variation in the average rate to a maximum of 1.40%. However, it established that if by using a straight-line CTC recovery assumption it were observed that the uncollected balance thereof as of December 31, 2010, would not be equal to zero, in calculating the average or reference electricity rate the government would apply an increase equal to 1.40%.

An increase or a reduction of up to 0.60% was provided for as a result of the revision of the forecasts made in calculating the rate for the two previous years in relation to certain variables, provided that they exceed certain limits, namely end consumer demand (1%), the legal interest rate for money (50 basis points), the surplus costs of the special regime premiums (5%) and the price of gas (5%).

Also, in calculating the average or reference electricity rate, the government can take into account the costs derived from changes in the legislation regulating the remuneration of the electricity activities.

In this regard, on October 3, 2003, Ministry of Economy Order ECO/2714/2003 was passed. This Order implements Royal Decree 1432/2002 in connection with the assignment and/or securitization of the cost relating to the shortfall in revenues from regulated activities prior to 2003 and of the cost relating to the revisions of nonmainland costs and regulates the key aspects of the assignment or securitization of these rights.

In accordance with this Order, ENDESA assigned all the remaining rights relating to the shortfall in revenues from regulated activities after the collection of €48 millions of principal in 2003. €599 million were received as a result of this assignment.

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Royal Decree 436/2004 establishing the methodology for updating the legal and economic regime for electricity production under the special regime and for establishing systematic revision procedures therefore was published on March 27, 2004.

The purpose of this Royal Decree is to introduce a stable and predictable system for the remuneration of electricity production using renewable energy sources or by high energy-efficiency cogenerators, in order to make it possible to forecast the investments that will be made in this industry and promote the use of these technologies over the next few years.

Royal Decree 1866/2004 regulating Spanish National CO₂ Emission Rights Plan for 2005-2007 was approved in 2004. In accordance with this legislation, ENDESA must have rights for CO₂ emissions made from January 1, 2005 onwards. Royal Decree 60/2005 approved the assignment free of charge of individual emission rights for each facility for 2005-2007. ENDESA was assigned emission rights for 120,101 thousand tonnes of CO₂ that period. If the emissions made exceed the volume of rights assigned, it will be necessary to acquire emission rights in the market.

b) Latin America

The legislation of the Latin American countries in which the Group operates differs from one country to another; however the main features are as follows:

Generation

In general, they are deregulated markets in which private-sector players take investment decisions freely based on the authorities' guidelines. In the case of Brazil, with the introduction of the New Model, the requirements for new generating capacity are determined by the Ministry, and the investments that are made to cover this capacity are decided on the basis of a bidding system.

In all the countries there is a centralized dispatching system based on variable production costs which, depending on each country, are tied to U.S. dollars in varying degrees to determine the marginal generation price, except in Colombia where dispatching is based on bids tendered. In Argentina there is a margin of up to 15% on the companies' audited variable costs, and the regulator sets the maximum value.

Distribution

In the five countries in which the Group operates, the selling price to non-eligible customers is regulated and is based on the price at which electricity is purchased from producers plus a component associated with the aggregate distribution price. In Argentina, Chile and Peru the purchase price is regulatorily tied to the marginal production cost. In Brazil the purchase price is based on the average prices in the bids for existing power and new power tendered in accordance with the procedures provided for in the New Model. However, the prices in the private contracts between companies that are still in force will remain unchanged during the term of the contracts. In Colombia the purchase price is negotiated directly with the producers, but the price charged to the end customer carries an efficiency surcharge for the distributors as a whole.

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Eligible customers

The minimum supply thresholds at which electricity can be freely contracted in each country are as follows:

<u>Country</u>	<u>Minimum MW</u>
Argentina	0.03
Brazil	3.0
Chile	2.0(*)
Colombia	0.1
Peru	1.0

(*) The Corta Law envisages the reduction of the threshold for eligibility from 2 MW to 0.5 MW from March 2006.

Integration and concentration limits:

Vertical integration is generally allowed if there is corporate unbundling of the activities. However, in Argentina and Colombia there are restrictions on producers or distributors being majority stockholders of transmission companies. Additionally, in Colombia companies formed after 1994 may not be vertically integrated. In Peru companies with a share of over 5% in a given business require authorization from the regulator to acquire a holding in a company operating in a different business. In Brazil the integration of generation and distribution is limited to 30%.

As regards concentration, in Argentina there is no clear limit in the case of horizontal concentration. The law only safeguards competition, and expressly prohibits acts involving unfair trading or abuse of dominant position in the market. The legislation in force establishes that the regulator must authorize consolidations or mergers between players in the same business segment.

In Brazil there are limits on concentration for both generation and distribution, and at both national and electricity subsystem level. At national level concentration is confined to 20% for both generation and distribution; at electricity subsystem level the limits are 35% in the North and North East subsystems, and 25% in the South-South East and Central-West subsystems. The New Model requires the legal unbundling of the various electricity activities, making deverticalization of the electricity distribution companies compulsory and, accordingly, these companies cannot carry on other electricity activities (generation, transmission and retailing to eligible customers), or own direct or indirect investments in the capital stock of other electricity business companies. Also, producers cannot own equity interests in distribution companies. In Colombia the maximum limit for horizontal concentration is 25% in each business and in Chile and Peru there are no limits.

System access

In all countries, access rights and the related fee or access price are regulated by the relevant authority.

c) Europe

Italy

Market deregulation and rates:

Since 2004 the Italian electricity system has been regulated by Law 239, which reorganized the Italian electricity industry and established that from July 1, 2004, all consumers, excluding residential users, would be eligible customers. The market is scheduled to be fully deregulated by July 1, 2007. The new investments in

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

LNG regasification capacity are exempt from payment of the network access rate and additional local taxes for repowering and new power plant construction projects have been introduced.

On April 1, 2004, the Power Exchange, consisting of the following markets, started to operate:

1. Power market: day-ahead market and balancing market with valuation of bids at the marginal system price.
2. Supplementary services market with valuation of pay-as-bid offers.
3. Capacity market, governed by remuneration criteria established by the authority.

Since March 2004 the regulator has established a capacity-based payment that does not guarantee full coverage of the fixed costs.

The Italian system of costs of transition to competition was defined through a number of Decrees between 2000 and 2001. It is based on the calculation of the difference between the necessary revenues and market revenues. The calculation is made “after the event”, in principle at the end of each year from 2000 to 2006.

In February 2003 the so-called Marzano Decree abolished the right to collect costs of transition to competition from January 2004, but also abolished the hydro penalty whereby hydro producers had to repay negative CTCs. Following the initial definitions, no payments were made and the recognition of costs through 2004 was not formalized. Decree-Law 6/8/2004 established the amounts receivable by the producers for costs of transition to competition relating to 2000-2003. This Decree-Law recognized the entitlement of the producers to receive a total of €850 million for that period, of which €169 million correspond to Endesa Italia. In December 2004 this mechanism was approved by the European Commission but has not yet been implemented into Italian law and, accordingly, the 2004 consolidated financial statements do not include any balance in this connection.

In relation to CO₂ emission rights, the Italian Government published the Italian National Plan for the Assignment of Emission Rights and transposed it into Italian legislation through Decree-Law 273. As of the date of preparation of these financial statements the European Commission had not yet approved the Plan and had initiated an infringement proceeding.

France

On July 1, 2004, nonresidential customers became eligible customers, representing approximately 70% of electricity consumption. The market will become fully deregulated on July 1, 2007.

The French government has adapted its gas and electricity legislation to the related European Directives through Law 2004-803.

With respect to the assignment of CO₂ emission rights for 2005-2007, SNET was assigned emission rights for 9,065 thousand tonnes of CO₂ during this period.

6. Costs of transition to competition and remuneration for the transition to competition in Spain

Remuneration for the transition to competition was regulated by Transitional Provision Six of Law 54/1997, the wording of which was modified by Article 107 of Law 50/1998 and, subsequently, by Royal Decree-Law 2/2001.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

a) Concept

In order to ensure a smooth transition to competition, Transitional Provision Six of Law 54/1997 established a maximum period of ten years from the entry into force of the Law over which the existence of costs relating to the transition to the competitive market envisaged in Law 54/1997 are recognized for the companies owning the electricity production facilities which as of December 31, 1997, were included in the scope of application of Royal Decree 1538/1987 on the determination of the electricity rate for the electricity service management companies. These costs are known as “Costs of Transition to Competition” (CTCs), and their recovery is provided for through the remuneration for transition to competition.

These costs are the result of comparing the remuneration that the companies would have received from their generating facilities under the former ratemaking system, which guaranteed recovery of the related investments, operating and maintenance costs, overheads and fuel costs and a return on the capital invested, with the flow of discounted revenues that they would obtain under market conditions. An efficiency factor of 32.5% was applied across-the-board for all the utilities. Also, certain costs relating to coal stocks and a premium for the use of Spanish coal were also recognized.

b) Maximum amount of the remuneration

Law 54/1997 stated that the overall base present value of the remuneration as of December 31, 1997, could not exceed €11,951 million. This amount was reduced to €10,438 million as a result of the entry into force of Law 50/1998. The maximum overall amount as of December 31 of each year of the components referred to in the preceding point will be calculated by adjusting the maximum overall base amount as of December 31 of the preceding year by the average three-month EURIBOR for the year.

The overall base amount as of December 31, 1997, comprised the following components:

1. The maximum amount of the allocation for consumption of local coal, the present value of which as of December 31, 1997, amounted to €1,775 million, payable to the production units which have effectively consumed local coal.
2. The maximum amount of the technological costs of transition to competition, the present value of which as of December 31, 1997, amounted to €8,664 million.

c) Procedure and recovery period

Law 54/1997 established that, during the transitional period from 1998 to 2007, the utilities owning the electricity production facilities that as of December 31, 1997, were included in the scope of application of Royal Decree 1538/1997 would receive an amount of remuneration defined as the difference between the average revenues obtained by the aforementioned utilities through the electricity rate and the remuneration for the production activity recognized under the Electricity Industry Law.

In 1999 and 2000 Article 107 of Law 50/1998, which modified the way in which the remuneration for the transition to competition was paid, was in force. This Law established that 80% of the total discounted amount recognized for each company, net of the amount already received and applying a 20% discount to the remaining amount, would be paid through the assignment for this purpose, from January 1, 1999 onwards, of 4.5% of billings for electricity sales, without any time limit. The aforementioned Law also established that the remaining 20% of the remuneration for the transition to competition would be recovered as initially envisaged, i.e. by the “system of differences” between the average revenues obtained by the utilities from the electricity rates and the system costs, including the aforementioned 4.5% of the electricity rate.

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Royal Decree Law 2/2001 eliminated the assignment of 4.5%, returning to a situation in which all the technological costs of transition to competition would be treated as a maximum amount to be recovered through the previously established system of differences with a time limit through December 31, 2010. Despite the fact that the previous system was reinstated, the reduction established in Law 50/1998 was consolidated.

If the average annual generation price received by the Company is higher than €0.03606 per KWh, this excess will be deducted from the value of the remuneration for the transition to competition not yet received.

d) Accounting treatment

For accounting purposes, the remuneration will cover, in the following order, the items described below:

1. The amount by which the book value of the electricity plant exceeds its market value, taken to be the value that the companies will foreseeably recover through the generation of revenues, net of the costs and expenses required to obtain these revenues, discounted at the discount rate established for the calculation of the maximum overall amount of the remuneration for the transition to competition.
2. Exchange differences and electricity industry accrual accounts arising under the former regulatory system and which were recorded on the asset side of the balance sheet as of December 31, 1997.
3. The necessary provisions for contingencies and expenses relating to restructuring plan expenses to be incurred in future years as a result of the transition to competition of the electric utilities.

The amounts indicated above that were not covered by the remuneration were retired from the balance sheet in 1997 and 1998 with a charge to reserves at fully consolidated companies, minority interests and prepaid taxes, as follows.

	Millions of Euros					
	1997			1998		
	Reserves	Minority Interests	Prepaid Taxes	Reserves	Minority Interests	Prepaid Taxes
Fixed assets	—	—	—	4	—	2
Deferred charges:	—	—	—	—	—	—
Exchange differences	1	—	1	—	—	—
Accruals and other	—	—	—	37	5	23
Restructuring expenses	416	107	256	100	12	52

A Ministry of Economy Order dated March 28, 2001, established that the utilities owning the electricity facilities that as of December 31, 2001, were included in the scope of application of Royal Decree 1538/1997 could, exclusively in their financial statements for 2000, write off against reserves the amount of the capitalized costs of transition to competition as of December 31, 2000, whose recovery was not considered to be reasonably assured through the remuneration for the transition to competition arising solely as a result of the elimination by Royal Decree Law 2/2001 of the assignment of 4.5% of billings for electricity sales to consumers.

In this regard, pursuant to the aforementioned Ministerial Order, the Company's directors, in accordance with the accounting principle of prudence, considered that in the event of the unfavorable evolution of the assumptions made in the analysis of the recoverability of assets to be offset through CTCs as of December 31, 2000, the amount of the assets that could not be recovered as a result of the elimination of the assignment of 4.5% of billings by Royal Decree Law 2/2001 would amount to €1,899 million, and this amount was charged off against reserves as of December 31, 2000. Of this amount, €172 million relate to the account receivable recorded

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

in 1999 and 2000 as a result of the recording of the revenues for remuneration for transition to competition which exceeded the amount collected based on the recovery rate established, and the remaining €1,727 million to labor force reduction expenses.

The charge to reserves was reduced by €665 million due to the tax effect of the aforementioned adjustment and, accordingly, the net effect on reserves amounted to €1,234 million.

Despite this accounting treatment, which was adopted solely for reasons of prudence, the Company's directors consider that the costs of transition to competition constitute an irrevocable right of the Company, and will take all the necessary steps to ensure that the maximum amount assigned is recovered in full.

If the amount of the remuneration for the transition to competition recovered in the future exceeds the amount estimated to record the accounting entry against reserves, the excess will also be recorded in reserve accounts.

After making the adjustments indicated above, the costs of transition to competition covered by the remuneration for the transition to competition included in the consolidated balance sheet in each period were as follows:

	Millions of Euros								
	Electricity Plant			Deferred Charges Due to the Transition to Competition			Total		
	Beginning Balance	Allocation to Income	Ending Balance	Beginning Balance	Allocation to Income	Ending Balance	Beginning Balance	Allocation to Income	Ending Balance
1998:	2,102	(126)	1,976	915	(57)	858	3,017	(183)	2,834
Adjustments	—	—	(147)	—	—	517	—	—	370
Total at 12-31-98	—	—	1,829	—	—	1,375	—	—	3,204
1999:	1,829	(132)	1,697	1,375	(102)	1,273	3,204	(234)	2,970
Adjustments	—	—	—	—	—	987	—	—	987
Total at 12-31-99	—	—	1,697	—	—	2,260	—	—	3,957
2000:	1,697	(150)	1,547	2,260	(204)	2,056	3,957	(354)	3,603
Adjustments	—	—	(22)	—	—	11	—	—	(11)
Charge to reserves	—	—	—	—	—	(1,727)	—	—	(1,727)
Total at 12-31-00	—	—	1,525	—	—	340	—	—	1,865
2001:	1,525	(118)	1,407	340	(26)	314	1,865	(144)	1,721
Total at 12-31-01	—	—	1,407	—	—	314	—	—	1,721
2002:	1,407	(81)	1,326	314	(20)	294	1,721	(101)	1,620
Effect of sale of									
Viesgo	—	—	(105)	—	—	—	—	—	(105)
Total at 12-31-02	—	—	1,221	—	—	294	—	—	1,515
2003:	1,221	(15)	1,206	294	(4)	290	1,515	(19)	1,496
Total at 12-31-03	—	—	1,206	—	—	290	—	—	1,496
2004:	1,206	(45)	1,161	290	(11)	279	1,496	(56)	1,440
Total at 12-31-04	—	—	1,161	—	—	279	—	—	1,440

The adjustments made to electricity plant in 1998 and 2000 relate mainly to the effect arising from the new estimate of the rate at which the value of the assets will be recovered through the market, based on the market situation.

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The adjustments made in 1998 to deferred charges related to the additional provisions to cover the cost of the labor force reduction plans agreed on in 1998. The adjustments made in 1999 and 2000 include the cost of the labor force reduction plans agreed on in 2000.

The Company's directors consider that, based on the estimates made of the trend in electricity system revenues and of the CTC collections, the amounts included in the foregoing table, which are recorded on the asset side of the consolidated balance sheet as of December 31, 2004, will be able to be fully recovered.

e) Evolution of the balance of the recognized CTCs not yet recovered through the remuneration

The detail of the balance of the remuneration recoverable since the remuneration was first introduced is as follows:

	Millions of Euros						
	1998	1999	2000	2001	2002	2003	2004
Beginning balance	4,388	4,313	4,095	3,768	3,631	2,678	2,578
Effect of sale of Viesgo	—	—	—	—	(224)	—	—
Accrued interest	221	130	170	157	111	60	55
Collections	(296)	(348)	(267)	(25)	—	(61)	(118)
Amount exceeding €0.03606 per kWh	—	—	(192)	(214)	(709)	—	—
Rate shortfall	—	—	170	—	475	—	—
Recognition of shortfall	—	—	—	—	(610)	—	—
Prior years' adjustments	—	—	(208)	(55)	4	(44)	20
Additional CTCs assigned to Elcogas	—	—	—	—	—	(55)	—
Ending balance	<u>4,313</u>	<u>4,095</u>	<u>3,768</u>	<u>3,631</u>	<u>2,678</u>	<u>2,578</u>	<u>2,535</u>

In 1998 the related amounts of the 1998 electricity rate were recorded as revenues from remuneration for the transition to competition. The cost of the assets covered by this remuneration was depreciated in 1998 at a rate of 6.52%, the coefficient established in the schedule for recovery of this remuneration for 1998, since this coefficient was higher than the principal amount of the remuneration for the transition to competition collected in 1998.

In 1999 and 2000 the amount of the remuneration for the transition to competition to be recovered by the system of differences was recorded, as in 1998, for the related amount of each year's electricity rate; however the amount to be recovered through the 4.5% of the electricity rate was recorded as a revenue based on the estimated recovery schedule established for a nine-year period, the recovery rates being 7.19 % for 1999 and 8.22% for 2000. The assets to be remunerated through the CTCs in those years were depreciated at the same rates. Based on this method, in 1999 and 2000 revenues relating to the remuneration for the transition to competition amounting to €395 million and €420 million, respectively, were recorded.

Since 2001 the revenues earned in the settlement of the rate each year have been recorded as CTC revenues. Since these revenues were lower than those envisaged in the established recovery schedule, the percentages of 7.75%, 6.24%, 1.26% and 3.69% envisaged for 2001, 2002, 2003 and 2004, respectively, in the schedule were applied in depreciating the cost of the assets to be recovered through the CTCs.

In the coming years, the cost of the assets recoverable through the CTCs will be depreciated on the basis of the percentage which the revenues represent of the total unrecovered remuneration, applying the minimum recovery schedule percentage.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

This recovery schedule was calculated in accordance with the projected recovery of CTCs included in the Economic Report accompanying Royal Decree 1432/2002, which established the method for calculating the rates for 2003 – 2010, as follows:

	Percentage of Projected Total
2003	1.26
2004	3.69
2005	5.04
2006	7.62
2007	9.41
2008	22.91
2009	24.41
2010	25.66
Total	100.00

7. Consolidation goodwill

The detail, by company, of the consolidation goodwill as of December 31, 2004, is as follows:

	Millions of Euros											
	12-31-02	Additions	Retirements	Amortization	Transfer	Other	12-31-03	Additions	Retirements	Amortization	Other	12-31-04
Endesa Italia	1,460	—	(10)	(77)	—	—	1,373	—	—	(77)	—	1,296
Enersis Group ...	1,430	50	(71)	(80)	(178)	27	1,178	—	—	(91)	3	1,090
Endesa Chile	866	—	—	(54)	(4)	6	814	—	—	(57)	14	771
Auna	385	—	—	(23)	—	1	363	175	—	(33)	—	505
Snet	261	—	—	(14)	—	—	247	—	(24)	(13)	—	210
Cerj	202	36	(15)	(14)	—	(29)	180	7	—	(14)	(13)	160
Chilectra	162	—	—	(9)	—	2	155	—	—	(11)	4	148
Coelce	2	—	—	(12)	182	3	175	—	(57)	(11)	2	109
Smartcom	58	—	—	(4)	—	—	54	—	—	(4)	—	50
Repsol	101	—	(101)	—	—	—	—	—	—	—	—	—
Rio Maipo	12	—	(15)	—	—	3	—	—	—	—	—	—
Other	31	17	—	(2)	—	(1)	45	30	—	(1)	—	74
Total	4,970	103	(212)	(289)	—	12	4,584	212	(81)	(312)	10	4,413

The retirement from the goodwill relating to the ENERSIS Group relates to the goodwill allocated to Río Maipo, the ENERSIS subsidiary sold in 2003.

The addition relating to AUNA corresponds to the goodwill arising from the acquisition of an additional holding of 3% (see Note 10).

The retirement relating to SNET corresponds to the offset of the negative consolidation goodwill that arose on the acquisition of the additional 35% holding in 2004 (see Note 10). The price paid in this second acquisition includes the effect of the price adjustment clause envisaged in the initial acquisition.

For COELCE, the retirement relates to the write-down of a portion of the goodwill since it is considered unrecoverable based on the valuation thereof conducted at 2004 year-end. This write-down was recorded under the “Nonoperating Expenses” caption in the accompanying consolidated statement of income (see Note 18).

The “Other” column includes the effect of monetary adjustments for €47 million and negative translation differences for €36 million.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

8. Intangible assets

The variations in intangible assets in 2004 and 2003 were as follows:

	Millions of Euros	
	2003	2004
Beginning balance	502	526
Inclusions in/Exclusions from consolidation	(7)	(91)
Additions	84	93
Amortization and retirements	(91)	(113)
Other	38	(40)
Ending balance	<u>526</u>	<u>375</u>

9. Utility plant

The detail of the book value of the utility plant and of the related accumulated depreciation as of December 31, 2004 and 2003, is as follows:

	Millions of Euros					
	2003			2004		
	Cost	Accumulated Depreciation	Construction Work in Progress	Cost	Accumulated Depreciation	Construction Work in Progress
Land and structures	1,893	(871)	—	2,283	(1,060)	—
Electricity plant:	46,106	(23,003)	2,364	50,080	(24,923)	2,210
Hydroelectric power plants	9,937	(4,272)	689	10,840	(4,555)	129
Fossil-fuel power plants	10,251	(6,985)	131	11,205	(7,687)	220
Nuclear power plants	8,268	(4,872)	60	8,326	(5,025)	58
Combined-cycle power plants	1,559	(107)	775	2,005	(180)	700
Other alternative power plants ...	510	(193)	(19)	585	(159)	213
Transmission facilities	918	(271)	110	997	(310)	125
Distribution facilities	13,921	(5,905)	529	14,921	(6,224)	727
Dispatching and energy control centers	533	(334)	31	566	(361)	30
Other electricity facilities	209	(64)	58	635	(422)	8
Other fixtures, machinery, tools, furniture and other tangible fixed assets	1,647	(1,131)	101	1,829	(1,221)	151
Total	<u>49,646</u>	<u>(25,005)</u>	<u>2,465</u>	<u>54,192</u>	<u>(27,204)</u>	<u>2,361</u>

Also, allowances recorded for utility plant amount to €187 million and €144 million in 2004 and 2003, respectively.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The variations in 2004 and 2003 in the utility plant in service, in the related accumulated depreciation and in construction work in progress were as follows:

	Millions of Euros												
	Balance at 12-31-02	Inclusions/ Exclusions	Additions	Retirements	Transfers	Other	Balance at 12-31-03	Inclusions/ Exclusions	Additions	Retirements	Transfers	Other	Balance at 12-31-04
Utility plant in service:													
Land and structures	1,961	(5)	28	(108)	27	(10)	1,893	291	58	(31)	60	12	2,283
Electricity plant:	46,358	(102)	286	(1,107)	1,540	(869)	46,106	1,522	414	(405)	1,984	459	50,080
Hydroelectric power plants	10,709	—	10	(255)	14	(541)	9,937	—	67	(3)	548	291	10,840
Fossil-fuel power plants	10,640	—	32	(113)	(177)	(131)	10,251	903	90	(255)	235	(19)	11,205
Nuclear power plants	8,206	—	19	(6)	49	—	8,268	—	16	(7)	49	—	8,326
Combined-cycle power plants	859	—	135	—	577	(12)	1,559	—	125	(12)	344	(11)	2,005
Other alternative power plants	273	—	1	—	234	2	510	27	7	(1)	41	1	585
Transmission facilities	1,731	—	—	(694)	19	(138)	918	—	45	(9)	17	26	997
Distribution facilities	12,730	(74)	84	(26)	1,275	(68)	13,921	—	63	(85)	847	175	14,921
Dispatching and energy control centers	500	—	—	(5)	28	10	533	—	—	—	33	—	566
Other electricity facilities	710	(28)	5	(8)	(479)	9	209	592	1	(33)	(130)	(4)	635
Other fixtures, machinery, tools, furniture and other tangible fixed assets	1,678	(7)	28	(22)	22	(52)	1,647	7	28	(22)	163	6	1,829
Total	49,997	(114)	342	(1,237)	1,589	(931)	49,646	1,820	500	(458)	2,207	477	54,192
Accumulated depreciation:													
Land and structures	(881)	2	(38)	25	19	2	(871)	(150)	(46)	10	—	(3)	(1,060)
Electricity plant	(22,241)	42	(1,405)	540	(38)	99	(23,003)	(847)	(1,422)	337	21	(9)	(24,923)
Other fixtures, machinery, tools, furniture and other tangible fixed assets	(1,120)	8	(71)	20	19	13	(1,131)	(5)	(58)	21	(21)	(27)	(1,221)
Total	(24,242)	52	(1,514)	585	—	114	(25,005)	(1,002)	(1,526)	368	—	(39)	(27,204)
Construction work in progress:													
Electricity plant	1,965	(10)	1,771	(89)	(1,533)	260	2,364	39	1,946	(6)	(2,127)	(6)	2,210
Other fixtures, machinery, tools, furniture and other tangible fixed assets	248	—	69	(159)	(56)	(1)	101	3	122	(1)	(80)	6	151
Total	2,213	(10)	1,840	(248)	(1,589)	259	2,465	42	2,068	(7)	(2,207)	—	2,361

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The “Other” column includes €272 million and €195 million relating to the 2004 and 2003 monetary adjustment, respectively, and €105 million and €(636) million relating to the effect on these balances of the 2004 and 2003 translation differences, respectively.

The fully depreciated utility plant in service as of December 31, 2003 amounted to €4,493 million. As of December 31, 2004, there were no material cash-generating units whose utility plant had been fully depreciated.

As of December 31, 2004 and 2003, the Group companies had tangible fixed asset purchase commitments amounting to €1,364 million and €683 million, respectively.

In 2003 ENDESA sold most of its mainland transmission assets in Spain to Red Eléctrica de España, S.A. for €957 million, giving rise to a capital gain of €543 million (see note 18).

Also, in 2003 real estate amounting to €411 million was sold, giving rise to a gain of €154 million (see note 18).

On December 31, 1996, most of the Group companies in Spain revalued their fixed assets pursuant to Royal Decree-Law 7/1996. The net increase in value resulting from these revaluations is being depreciated over the tax periods in the remaining useful lives of the revalued assets. The 1996 revaluations increased the 2004 and 2003 depreciation charge by approximately €140 million and €166 million, respectively.

Endesa and its subsidiaries have taken out insurance policies to cover the possible risks to which their utility plant is subject and any possible claims that may be filed against them as a result of their business activities. It is considered that these policies sufficiently cover the risks to which the assets are subject.

The directors of Endesa, based on their best estimates of the cash flows that will be generated by the Company’s assets, together with the revenues arising from the remuneration for the transition to competition, consider that there is no doubt that the amounts recorded as of December 31, 2004, in the utility plant accounts will be recovered.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

10. Long-term investments

The detail of this caption as of December 31, 2004 and 2003, excluding the balance of the “Prepaid Taxes” caption (see Note 17), and of the variations therein in 2004 and 2003 is as follows:

Long-term Investments	Millions of Euros												
	Balance at 12/31/02	Additions	Inclusions in/ Exclusions from Consolidation	Companies Accounted for by the Equity Method	Divestments	Transfers and Other	Balance at 12/31/03	Additions	Inclusions in/ Exclusions from Consolidation	Companies Accounted for by the Equity Method	Divestments	Transfers and other	Balance at 12/31/04
Investments accounted for by the equity method	2,038	49	6	6	(545)	(35)	1,519	494	32	53	(147)	(336)	1,615
Auna	690	—	—	(16)	—	—	674	261	—	10	—	(182)	763
Smartcom	178	49	—	(34)	—	4	197	187	—	10	—	(9)	385
Inversiones Gas Atacama Holding	—	—	—	—	—	110	110	—	—	8	—	(7)	111
Tejo	53	—	—	4	—	4	61	—	—	7	—	—	68
Red Eléctrica	80	—	—	4	(58)	—	26	—	—	2	—	—	28
Altek	—	—	—	—	—	—	—	—	25	1	—	1	27
Sidec	—	—	—	—	—	—	—	—	25	2	—	—	27
Nqf Gas	21	—	—	—	—	—	21	—	—	—	—	—	21
Elcogas	—	—	—	—	—	—	—	24	—	(4)	—	—	20
Inversiones Eléctrica Quillota	11	—	—	2	—	1	14	—	—	3	—	—	17
Inversiones Electrogas	9	—	—	3	—	(1)	11	—	—	—	—	(1)	10
Yacylec	11	—	—	2	—	(3)	10	—	—	1	—	(1)	10
Euroviluppo Elettrica Spa.	—	—	—	—	—	—	—	19	—	—	—	(15)	4
Snet	176	—	—	4	—	(1)	179	—	—	6	—	(185)	—
Agbar	112	—	—	20	—	2	134	—	—	2	(135)	(1)	—
Enditel	9	—	—	2	—	—	11	—	—	(3)	(8)	—	—
Other investments accounted for by the equity method	688	—	6	15	(487)	(151)	71	3	(18)	8	(4)	64	124
Loans to companies accounted for by the equity method	48	189	—	—	(4)	(1)	232	6	4	—	(90)	(105)	47
Long-term investment securities	539	47	(6)	—	(14)	7	573	37	(56)	—	(54)	(125)	375
Other loans	1,677	173	—	—	(635)	(21)	1,194	127	(25)	—	(95)	(205)	996
Allowances	(104)	(10)	—	—	1	(5)	(118)	(12)	(9)	—	33	38	(68)
Total	4,198	448	—	6	(1,197)	(55)	3,400	652	(54)	53	(353)	(733)	2,965

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The amounts included in the “Transfers and Other” column for the loans and long-term investment securities relate basically to transfers at short term.

In 2003 ENDESA recovered the €658 million recorded as of December 31, 2002, on the asset side of the consolidated balance sheet in relation to contributions made to finance the shortfall in revenues from regulated activities in the period from 2000 to 2002. Of this amount, €587 million were recorded at long term under the “Long-Term Investments” caption and €71 million were recorded at short term under the “Short-Term Investments” caption.

Of the amount recovered, €48 million were recovered through the electricity system revenues in 2003 and the remaining €610 million were recovered through their assignment to various banks for a price of €599 million.

The loss of €11 million incurred on the assignment transaction was recorded under the “Nonoperating Expenses” caption in the accompanying consolidated statement of income (see Notes 5 and 18).

ENDESA arranged with SCH, which owned a 34.3% holding in Endesa Italia, a call option on the full amount of this holding, which could be exercised at any time, either fully or partially, from the date on which the bank’s holding was subscribed and paid in September 2001 through the fifth year after that date. The bank was granted a put option on the full amount of its holding, which could be exercised from the fifth year after the aforementioned subscription date onwards. The exercise price of the two options was based on the acquisition cost of ENDESA’s initial holding in Endesa Italia plus the related accrued interest.

On December 22, 2003, ENDESA and SCH entered into an agreement whereby in practice the bank assigned all its voting rights at ENDESA Italia to ENDESA.

This agreement, together with the aforementioned call and put options, created a situation equivalent to holding the ownership interest directly, since both the voting and the dividend rights and the risk or economic returns relating to the 34.3% holding in ENDESA Italia owned by SCH were transferred to ENDESA.

Accordingly, the consolidated financial statements for 2003 included from December 22, 2003, an 85.3% holding owned by ENDESA in ENDESA Italia (51% owned directly and 34.3% relating to SCH’s holding) and the balance relating to minority interests was retired from the accounts. The €817 million payable to SCH for the acquisition of its 34.3% holding in ENDESA Italia was recorded under the “Other Long-Term Debt” caption.

The Endesa Group had been negotiating with the French company Charbonnages de France (CdF), which owns 51.25% of the capital stock of SNET, with a view to concluding an agreement that would make it possible to acquire an additional stake in SNET.

As a result of these negotiations, on September 25, 2003, a memorandum of understanding was entered into for the acquisition of a 35% holding in SNET, which would increase the Group’s ownership interest in this company to 65%.

The effect on the acquisition of the first 30% of the holding of adapting SNET’s power sale contract with EDF to new French Electricity Industry Law will be deducted from the selling price.

In 2004, the ENDESA GROUP finally acquired the additional 35% of SNET for €121 million. This amount includes the effect of the price adjustment envisaged in the initial acquisition made in 2001. As a result of this acquisition, SNET is now fully consolidated and, accordingly, the investment as of December 31, 2003 has been retired from the long-term investments.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

In 2003 the Group notified SCH of its decision to exercise its call option on 3% of the shares of AUNA amounting to €259 million. The acquisition took place in 2004 and €175 million were included on the asset side of the balance sheet as goodwill (see Note 7).

The investment of €187 million in SMARTCOM was made through the conversion of loans as of December 31, 2003 into capital at short term.

In May 2004, the holding in Aguas de Barcelona, S.A. (AGBAR) was sold for €238 million giving rise to a gain of €102 million (see Note 18).

Below are details of the loans to companies accounted for by the equity method for the years ended December 31, 2004 and December 31, 2003, respectively:

<u>Millions of Euros</u>	<u>Balance at 12/31/2003</u>	<u>Average interest in 2003</u>	<u>Balance at 12/31/2004</u>	<u>Average interest in 2004</u>
Megasa	13	3.13%	15	3.61%
Senda Ambiental	1	3.92%	—	—
Enditel	12	3.91%	—	—
Soprolif	4	10.50%	4	10.5%
Atacama Finance Co	170	5.00%	—	—
Tunel el Melón	16	6.65%	—	—
Endesa Gas	8	4.5%	—	—
Puignerel Ecyr	3	3.5%	3	3.03%
Foraneto	1	3.3%	—	—
Fibrarel	3	2.7%	2	4.73%
NQF	—	—	8	5.2%
Eurosviluppo Elettrica, S.P.A	—	—	3	—
Soc. Provencale Lit Fluidisant	—	—	5	10.5%
Elcogas	—	—	1	—
Others	<u>1</u>	—	<u>6</u>	—
Loans to companies accounted for the equity method	<u>232</u>		<u>47</u>	

11. Inventories

The detail of this caption as of December 31, 2004 and 2003, is as follows:

	<u>Millions of Euros</u>			
	<u>2003</u>		<u>2004</u>	
	<u>Net</u>	<u>Cost</u>	<u>Net</u>	<u>Net</u>
Fuel stocks	512	657	(5)	652
- Nuclear fuel	236	239	—	239
- Other	276	418	(5)	413
Materials	129	179	(27)	152
Advances to suppliers	<u>3</u>	<u>2</u>	<u>—</u>	<u>2</u>
Total	<u>644</u>	<u>838</u>	<u>(32)</u>	<u>806</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

ENDESA has entered into various natural gas purchase agreements that contain “take or pay” clauses. Since the Company considers that it will be able to fulfill these commitments, it does not expect any contingency to arise in this connection.

12. Stockholders’ equity

The detail of the balance of this caption as of December 31, 2004, 2003 and 2002 and of the variations therein in 2004, 2003 and 2002 is as follows:

	Millions of Euros											
	Other Reserves of the Parent Company							Reserves at Companies Accounted for by the Equity Method			Total	
	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Unrestricted Reserves	Restricted Reserves	Reserve for Treasury Stock	Reserve for Proportionally Consolidated Companies	Reserves at Companies Accounted for by the Equity Method	Translation Differences	Income for the Year		Interim Dividend
Balance at December 31, 2001	1,271	1,376	1,719	2,851	567	101	1,370	61	(1,859)	1,479	(280)	8,656
Distribution of 2001 income:												
Interim dividend										(280)	280	
Final dividend										(443)		(443)
Other reserves				37			716	3		(756)		
Transfers				112	(93)	(19)						
Provisions for treasury stock				77								77
Translation differences									(1,367)			(1,367)
Other (*)				9			121					130
2002 income										1,270		1,270
2002 interim dividend											(280)	(280)
Balance at December 31, 2002	1,271	1,376	1,719	3,086	474	82	2,207	64	(3,226)	1,270	(280)	8,043

(*) Relating mainly to the monetary adjustment at Latin American companies (see Note 4-h).

Endesa, S.A. and Subsidiaries
Notes to 2004 and 2003 consolidated financial statements—(Continued)

	Millions of Euros											
	Other Reserves of the Parent Company					Reserves at Companies						
	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Unrestricted Reserves	Restricted Reserves	Reserves for Treasury Stock	Reserves at Fully or Proportionally Consolidated Companies	Reserves at Companies Accounted for by the Equity Method	Translation Differences	Income for the Year	Interim Dividend	Total
Balance at December 31,												
2002	1,271	1,376	1,719	3,086	474	82	2,207	64	(3,226)	1,270	(280)	8,043
Distribution of 2002												
income												
- Interim dividend										(280)	280	
- Final dividend										(443)		(443)
- Other reserves				(361)			833	75		(547)		
Transfers			(3)	81	(13)	(65)	70	(70)				
Provisions for treasury stock												
Translation differences				21			(102)					21
Other (*)			(2)	4			54		194			92
2003 income										1,312		56
2003 interim dividend											(280)	1,312
Balance at December 31,												
2003	1,271	1,376	1,714	2,831	461	17	3,062	69	(3,032)	1,312	(280)	8,801

(*) Relating mainly to the monetary adjustment at Latin American companies (see Note 4-h).

Endesa, S.A. and Subsidiaries
Notes to 2004 and 2003 consolidated financial statements—(Continued)

	Millions of Euros											
	Other Reserves of the Parent Company					Reserves at Companies Fully or Proportionally Consolidated						
	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Unrestricted Reserves	Restricted Reserves	Reserve for Treasury Stock	Reserves at Companies Fully or Proportionally Consolidated	Reserves at Companies Accounted for by the Equity Method	Translation Differences	Income for the Year	Interim Dividend	Total
Balance at December 31, 2003	1,271	1,376	1,714	2,831	461	17	3,062	69	(3,032)	1,312	(280)	8,801
Distribution of 2003												
income												
- Interim dividend										(280)	280	
- Final dividend										(464)		(464)
- Other reserves				138			424	6		(568)		
Transfers				24	(7)	(17)						
Provisions for treasury stock				11								11
Translation differences									28			28
Other				4			6					10
2004 income										1,379		1,379
2004 interim dividend											(288)	(288)
Balance at December 31, 2004	1,271	1,376	1,714	3,008	454	—	3,492	75	(3,004)	1,379	(288)	9,477

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

a) Capital stock

The capital stock amounts to €1,270,502,540.40 and consists of 1,058,752,117 fully subscribed and paid shares of €1.2 par value each, all of which are listed on the Spanish Stock Exchanges. As of December 31, 2004 and 2003, €28 million and €45 million, respectively, of these shares were listed on the New York Stock Exchange in the form of ADRs. Endesa, S.A.'s shares are also traded on the Santiago de Chile Offshore Stock Exchange.

b) Additional paid-in capital

The revised Corporations Law expressly permits the use of the additional paid-in capital balance to increase capital and establishes no specific restrictions as to its use.

c) Legal reserve

Under the revised Corporations Law, 10% of income for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of capital stock.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Otherwise, until the legal reserve exceeds 20% of capital stock, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The Group's Parent Company has recorded the legal reserve in full (€285 million), and this amount is included under the "Restricted Reserves" caption in the accompanying consolidated balance sheet.

d) Revaluation reserve

The balance of the "Revaluation Reserve" caption arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996.

This balance can be used, free of tax, to offset book losses that might arise in the future and to increase capital stock.

From January 1, 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realized in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or retired from the accounting records.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

e) Reserves and income/loss by subsidiary

The breakdown, by subsidiary, of the contribution to the Group's income and of the balances of the "Reserves at Fully or Proportionally Consolidated Companies" and "Reserves at Companies Accounted for by the Equity Method" captions as of December 31, 2004 and 2003, is as follows:

	Millions of Euros			
	2003		2004	
	Income (Loss)	Reserves	Income (Loss)	Reserves
Fully and Proportionally Consolidated Companies				
Endesa	(238)	38	(309)	(158)
Endesa generación group	482	1,894	557	1,991
Endesa red group	701	104	297	631
Endesa energía group	61	84	60	11
Endesa servicios	6	(47)	7	(43)
Endesa diversificación group	(26)	(410)	107	(425)
Endesa internacional group	84	1,220	270	1,304
Endesa net factory	(5)	(20)	(14)	(25)
Endesa financiación filiales	137	146	204	102
Teneguía	52	5	51	4
Endesa europa group	52	48	145	100
Subtotal	1,306	3,062	1,375	3,492
Companies accounted for by the equity method:				
Red eléctrica de españa	6	69	4	75
Subtotal	6	69	4	75
Total	1,312	3,131	1,379	3,567

Substantially all the translation differences relate to the Endesa Internacional Group.

f) Treasury stock

As authorized by the Stockholders' Meetings on June 19, 2003 and April 2, 2004, and to facilitate trading liquidity at specific times, in 2004 ENDESA performed various purchase and sale transactions involving shares of treasury stock.

The variations in the "Treasury Stock" caption in 2004 and 2003 were as follows:

	Millions of Euros			
	2003	2004		
	Net	Gross	Allowance	Net
Balance at 12-31-03	82	28	(11)	17
Acquisitions	70	154	—	154
Sales	(185)	(182)	—	(182)
Provisions recorded with a charge to income	29	—	—	—
Provisions recorded with a charge to reserves	21	—	11	11
Balance at 12-31-04	17	—	—	—

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The treasury stock sales gave rise to a gain of €16 million and €14 million in 2004 and 2003 (see Note 18).

As of December 31, 2003, the Company held 2,089,661 shares of treasury stock, acquired at an average price of €13.50 per share, totaling €28 million. Since the cost of these shares is higher than their underlying book value, it was reduced by recording an allowance of €11 million. Additionally, a restricted reserve was recorded for a net value of €17 million.

As of December 31, 2004, the Company did not hold any shares of treasury stock.

13. Minority interests

The breakdown, by company, of the balance of the “Minority Interests” caption in the consolidated balance sheet as of December 31, 2004 and 2003, and of the income attributed to minority interests in 2004 and 2003 is as follows:

	Millions of Euros			
	2003		2004	
	Income Attributed to Minority Interests	Minority Interests	Income Attributed to Minority Interests	Minority Interests
Endesa Generación	—	—	1	16
Endesa Diversificación	6	51	2	—
Endesa Internacional	455	2,939	350	3,466
Endesa Distribución	3	10	3	10
Endesa Servicios	(3)	—	—	—
Teneguía	3	90	4	87
Endesa Capital Finance	49	1,500	61	1,502
Endesa Europa	<u>52</u>	<u>355</u>	<u>33</u>	<u>630</u>
Total	<u>565</u>	<u>4,945</u>	<u>454</u>	<u>5,711</u>

The variations in the “Minority Interests” caption in 2004 and 2003 were as follows:

	Millions of Euros	
	2003	2004
Beginning balance	3,175	4,945
Income for the year	565	454
Inclusion/Exclusion of new companies from consolidation	2,293	251
Capital increases / decreases at subsidiaries	—	(9)
Sale of companies	—	(42)
SCH Endesa Italia option	(827)	—
Dividends distributed and capital reductions	(121)	(196)
Translation differences	(213)	184
Monetary adjustments	70	123
Other	<u>3</u>	<u>1</u>
Ending balance	<u>4,945</u>	<u>5,711</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

In 2003 €765 million were subscribed by minority stockholders in the capital increase at ENERSIS. This capital increase reduced ENDESA's holding in Enersis from 64.97% as of December 31, 2002, to 60.62% as of December 31, 2003. This change modified substantially all ENDESA's economic ownership interests in its Latin American investees.

The balances of the "Minority Interests" caption relating to ENDESA Capital Finance includes a preferred share issue of €1,500 million carried out in March 2003, with the following characteristics:

Dividend: variable tied to three-month Euribor with a minimum APR of 4% and a maximum APR of 7% in the first ten years, and tied to Euribor plus an APR of 3.75% from the eleventh year onwards. The dividend will be payable quarterly.

Term: perpetual, although the issuer may retire the shares early from the tenth year onwards for their par value.

Guarantee: subordinated guarantee from ENDESA, S.A.

Return: the payment of dividends will be preferred and noncumulative and conditional on the obtainment of consolidated income or on the payment of dividends on the common shares of ENDESA, S.A.

14. Subsidies and other deferred revenues

The variations in these captions in 2004 and 2003 were as follows:

	Millions of Euros	
	Subsidies	Other Deferred Revenues
Balance at 12-31-02	927	429
Additions	216	143
Inclusions in/Exclusions from consolidation	(2)	—
Retirements/Amounts allocated to income (Note 18)	(46)	(93)
Other	(66)	4
Balance at 12-31-03	1,029	483
Additions	214	52
Inclusions in/Exclusions from consolidation	2	528
Retirements/Amounts allocated to income (Note 18)	(44)	(77)
Other	16	(54)
Balance at 12-31-04	1,217	932

The balance of the "Subsidies" account as of December 31, 2004 and 2003, includes €507 million and €412 million of connection charges.

The "Other Deferred Revenues" caption includes €522 million arising from the full consolidation of SNET, which relate to the amounts collected in advance under the electricity supply contract that the aforementioned company entered into with EDF, which covers the period from 1996 to 2011.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

15. Provisions for contingencies and expenses

The main items included under this caption in the consolidated balance sheet as of December 31, 2004 and 2003, were as follows:

	Millions of Euros	
	2003	2004
Provisions for pensions (Note 4-i.a)	311	308
Provisions for labor force reduction plan (Note 4-i.b)	2,379	2,316
Other provisions (4-j)	1,812	1,745
Total	4,502	4,369

a) Provisions for pensions and similar obligations

The variations in this account in 2004 and 2003 were as follows:

	Millions of Euros	
	2003	2004
Beginning balance	332	311
Amounts used:	—	—
Credited to income	(2)	(9)
Payments	(14)	(35)
Provisions charged to income:	—	—
Personnel expenses	10	17
Financial and other operating expenses	9	3
Nonoperating expenses (Note 18)	43	—
Transfers and other	(67)	21
Ending balance	311	308

b) Provisions for labor force reduction plans

The variations in the provisions for labor force reduction plans in 2004 and 2003 were as follows:

	Millions of Euros	
	2003	2004
Beginning balance	2,374	2,379
Amounts used:		
Payments	(274)	(280)
Provisions charged to income:		
Financial expenses	95	94
Nonoperating expenses (Note 18)	186	125
Transfers and others	(2)	(2)
Ending balance	2,379	2,316

The provision charged to nonoperating expenses relates mainly to the effect of higher-than-forecast inflation in 2004 and to the increase from 2% to 2.3% in the inflation assumed in the actuarial studies used to record the provision.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

c) Other provisions

The variations in 2004 and 2003 in the “Other Provisions” caption were as follows:

	Millions of Euros	
	2003	2004
Beginning balance	1,515	1,812
Provisions charged to income:		
Personnel expenses	—	21
Operating and financial income	97	137
Nonoperating expenses (Note 18)	353	238
Amounts used:		
Credited to nonoperating income	(70)	(375)
Operating income	—	(38)
Payments	(126)	(139)
Inclusion of companies		87
Transfers and other	43	2
Ending balance	<u>1,812</u>	<u>1,745</u>

The items included in this balance as of December 31, 2004 and 2003, were as follows:

1. €330 million and €302 million, respectively, relating to the coverage of future expenses arising from extraordinary repairs and restructuring of facilities, mainly for overhauls and extraordinary repairs of the production units, restructuring of mining facilities, the replacement of meters as a result of market deregulation and the new regulations on metrology and the provisions for the decommissioning of nuclear power plants.
2. €252 million and €233 million, respectively, relating to the accrued liabilities for employee welfare benefits for long-service bonuses and supply of electricity to retired employees.
3. €935 million and €749 million, respectively, for outstanding litigation and third-party claims.
4. €228 million and €347 million, respectively, relating to the estimated amount required for probable or certain third-party liability arising from outstanding indemnity payments or obligations of undetermined amount.

As of December 31, 2003, the consolidated balance sheet included a provision of €181 million to cover the direct and indirect risk relating to the investments in and loans to Argentine companies. In 2004 the Argentine economy and currency stabilized and some of the Group’s Argentine subsidiaries were able to gain access to local capital markets to obtain long-term financing. Since the situation had returned to normality, the Group’s directors decided to reverse the full amount of the provision, since the valuations performed made it possible to conclude that the book value of the assets in Argentina is recoverable in full (see Note 18).

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

16. Loans, financial debts and other payables

a) *Debentures and other marketable debt securities*

The detail of the balances of debentures and other marketable debt securities as of December 31, 2004 and 2003, and of the scheduled maturity dates is as follows:

	Millions of Euros								
	Balance 12-31-03	Balance at 12-31-04	Maturing at Short Term	Maturing at Long Term				Subsequent Years	Total
				2006	2007	2008	2009		
Debentures and bonds	10,310	9,617	77	1,975	355	913	1,759	4,538	9,540
Promissory notes	1,838	2,400	2,358	42	—	—	—	—	42
Accrued interest Payable . . .	84	193	193	—	—	—	—	—	—
Total	12,232	12,210	2,628	2,017	355	913	1,759	4,538	9,582

These transactions bore average interest of 5.34% and 4.63% in 2004 and 2003, respectively.

b) *Payable to credit institutions*

The detail of the balances payable to credit institutions as of December 31, 2004 and 2003, and of the scheduled due dates is as follows:

	Millions of Euros								
	Balance at 12-31-03	Balance at 12-31-04	Due at Short Term	Due at Long Term				Subsequent Years	Total
				2006	2007	2008	2009		
In euros (*):									
Principal	3,582	4,247	425	1,560	428	1,276	249	309	3,822
Accrued interest payable	42	35	35	—	—	—	—	—	—
Subtotal	3,624	4,282	460	1,560	428	1,276	249	309	3,822
In foreign currency (*):	2,383	1,799	550	184	168	405	262	230	1,249
U.S. dollar	1,983	1,295	342	118	100	315	234	186	953
Brazilian reias	67	281	83	43	48	42	26	39	198
Other	333	223	125	23	20	48	2	5	98
Accrued interest payable	10	15	15	—	—	—	—	—	—
Subtotal	2,393	1,814	565	184	168	405	262	230	1,249
Total	6,017	6,096	1,025	1,744	596	1,681	511	539	5,071

(*) The classification of balances by currency includes the effect of the derivatives assigned to each transaction.

In 2004 and 2003, the accounts payable in euros to credit institutions bore average interest of 4.52% and 4.88% and the foreign currency debt bore average interest of 8.04% and 7.29%, respectively.

The total interest-bearing debt bore average interest of 5.48% and 5.17% in 2004 and 2003, respectively.

As of December 31, 2004 and 2003, the Group companies had unused credit lines amounting to €2,733 million and €3,742 million, respectively, which, together with the current assets, sufficiently cover the short-term commitments.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The detail of the outstanding balance of the interest rate hedging transactions not included in the initial structure of the related transaction, mainly in euros and U.S. dollars, at 2004 and 2003 year-end is as follows: €7,036 million and €8,094 million of interest rate swaps, respectively; €775 million and €3,173 million of collars, respectively; and €1,500 million of cap spreads to reduce the maximum rate of the cost of the preferred shares from an ARP of 7% to an ARP of 5.53% in both years. The cost of arranging these transactions was charged to income by the interest method. The exchange rate hedging transactions as of December 31, 2004 and 2003, included currency swaps totaling €840 million and €807 million and forward transactions totaling €344 and €551 million, respectively.

Additionally, International Endesa BV arranged certain derivatives transactions to supplement transactions carried out by it under the Euro Medium Term Note (EMTN) and Euro Commercial Paper (ECP) issue programs, which are guaranteed by Endesa S.A. The breakdown of these transactions at 2004 and 2003 year-end is as follows: €3,467 and €3,954 million of interest rate swaps, respectively; and €1,356 and €987 million of currency swaps, respectively.

The result of these transactions was taken into account in calculating the average financial cost disclosed in this Note.

The contracts governing a portion of the Group's financial debt, mainly in Latin America, contain certain clauses, which are habitual in contracts of this nature, that establish the possibility for the lender to demand that the repayment of the financing be brought forward if certain financial conditions are not met. The Group's directors consider that the existence of these clauses will not modify the classification of the debt between long and short term in the accompanying consolidated balance sheet.

The impact of the Company's hedging activities on the weighted average borrowing rate and on the reported interest expense is as follows:

	Millions of Euros		
	Balance at 12-31-02	Balance at 12-31-03	Balance at 12-31-04
Weighted average interest rate	4.79%	4.59%	4.70%
Impact of hedging activities	0.26%	0.58%	0.78%
Net weighted average interest rate	5.05%	5.17%	5.48%
Financial and similar expenses	1,436	1,046	875
Impact of hedging activities under Spanish GAAP	<u>63</u>	<u>132</u>	<u>147</u>
Gross financial and similar expenses as reported in the consolidate income statement	<u>1,499</u>	<u>1,178</u>	<u>1,022</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

c) Other payables

The detail of the balances of other long-term payables and other short-term nontrade payables as of December 31, 2004 and 2003, is as follows:

	Millions of Euros			
	Balance at 12-31-03	Balance at 12-31-04	Other Nontrade Payables	Long- Term Debt— other Payables
Payables in euros, guarantees and deposits	1,212	2,982	1,943	1,039
Debt relating to the call option on Endesa Italia	817	—	—	—
Foreign currency payables	351	446	130	316
Deferred taxes (Note 17)	1,459	1,548	—	1,548
Accrued interest payable	14	4	4	—
Total	3,853	4,980	2,077	2,903

17. Tax matters

ENDESA files consolidated tax returns in Spain with certain Group companies. As of December 31, 2004, the consolidated tax group comprised 67 companies, of which the most significant were Endesa, S.A., Endesa Generación, Endesa Distribución Eléctrica, Endesa Red, Endesa Operaciones y Servicios Comerciales, Gesa Generación, Unelco Generación, Endesa Energía, Endesa Financiación Filiales, Endesa Internacional, Endesa Diversificación and Endesa Europa.

The reconciliation of the income per books for 2004 and 2003 to the taxable income for corporate income tax purposes is as follows:

	Millions of Euros	
	2003	2004
Consolidated income for the year per books (before taxes)	2,427	2,233
Permanent differences	(545)	(645)
Timing differences:		
Arising in the year	138	64
Arising in prior years	(2,052)	(1,085)
Offset of prior years' tax losses	(231)	(310)
Taxable income	(263)	257

Corporate income tax is calculated on the basis of income per books determined by application of generally accepted accounting principles, which does not necessarily coincide with taxable income. The applicable tax rate varies depending on the country in which each company carries on its business activities.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The reconciliation of the corporate income tax expense for 2004 and 2003 to the tax payable is as follows:

	Millions of Euros	
	2003	2004
Corporate income tax expense for the year	550	400
Tax allocated to translation differences and reserves (Note 3—b.5)	89	30
Effect of timing differences	(571)	(98)
Tax assets and tax credits (*)	—	(175)
Other adjustments	10	(12)
Net tax payable	78	145

(*) Including the amounts recorded as of December 31, 2003, under the “Other Accounts Receivable” caption in the consolidated balance sheet.

These timing differences were calculated on the basis of the income or loss of each consolidated company plus the effect of consolidation adjustments.

In 2004 the effect of the timing differences includes €75 million of prepaid taxes recoverable in a period of over ten years, which the Group’s directors have decided to record because there are deferred taxes for a higher amount, which will also foreseeably be paid in a period of over ten years.

In 2004 the consolidated tax group headed by ENDESA generated tax credits amounting to €173 million. These the tax credits were recorded regardless of whether or not they were taken in the year, as provided for in the Spanish Accounting and Audit Institute (ICAC) Resolution dated March 15, 2002. Also, tax credits of €140 million arising in the year and in prior years were taken. Accordingly, the total unused tax credits available for use in future years amount to €392 million.

In 2004 the consolidated tax group offset the tax asset of €134 million that it had recorded under the “Other Accounts Receivable” caption in the consolidated balance sheet for tax losses incurred in prior years and, accordingly, there were no tax losses available for carryforward as of December 31, 2004.

The difference between the tax charge allocated to 2004 and prior years and the tax already paid or payable for those years, which is recorded in the “Prepaid Taxes” and “Deferred Taxes” accounts, arose from timing differences in various years. The prepaid taxes relate mainly to period provisions for pensions and labor force reduction plans that have not yet become tax deductible, whereas the deferred taxes arose mainly as a result of accelerated depreciation for tax purposes and the deferral for accounting purposes of the effect on income of the tax deductibility of the provisions recorded for the telecommunications subsidiaries and subsidiaries in Latin America. The variations in these accounts in 2004 and 2003 were as follows:

	Millions of Euros			
	2003		2004	
	Prepaid Taxes	Deferred Taxes	Prepaid Taxes	Deferred Taxes
Beginning balance	3,253	1,322	2,759	1,459
Inclusions in/Exclusions from consolidation	(1)	(2)	19	5
Variations in income	(309)	262	7	105
Other variations	(184)	(123)	(166)	(21)
Ending balance	2,759	1,459	2,619	1,548

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The GROUP companies generally have the last four years open for review by the tax inspection authorities for all the taxes applicable to them. The directors do not expect any additional material liabilities to arise for the GROUP as a result of inspection of the open years.

18. Revenues and expenses

a) Net sales

The breakdown of net sales by geographical market is as follows:

<u>Market</u>	<u>Millions of euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Spain	11,145	10,721	10,959
Italy	1,109	1,242	1,665
France	—	—	267
Rest of Europe	635	731	734
Chile	1,171	1,003	1,111
Brazil	1,111	1,055	1,129
Colombia	685	618	761
Peru	498	440	501
Argentina	385	429	515
Total	<u>16,739</u>	<u>16,239</u>	<u>17,642</u>

b) Headcount

The average number of employees in 2004 and 2003, by professional category, was as follows:

	<u>2003</u>	<u>2004</u>
Executives and university graduates	4,280	3,273
Junior college graduates	5,626	4,804
Supervisors	7,644	10,262
Clerical staff and manual workers	9,050	8,646
Total	<u>26,600</u>	<u>26,985</u>

c) Fees paid to auditors

The detail of the fees for the services provided in 2004 and 2003 by the auditors of the financial statements of the various companies composing the Group is as follows:

	<u>Euros</u>			
	<u>2003</u>		<u>2004</u>	
	<u>Principal Auditor</u>	<u>Other Auditors of Subsidiaries</u>	<u>Principal Auditor</u>	<u>Other Auditors of Subsidiaries</u>
Audit of financial statements	2,948,363	668,768	5,385,852	1,478,900
Audits other than of the financial statements and other audit related services	3,280,410	468,315	1,327,432	785,115
Other non-audit services	1,691,588	398,200	1,834,426	732,320
Total	<u>7,920,361</u>	<u>1,535,283</u>	<u>8,547,710</u>	<u>2,996,335</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

d) Nonoperating revenues and expenses

The detail of the balance of the “Nonoperating Revenues” caption in 2004, 2003 and 2002 is as follows:

<u>Nonoperating Revenues</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Gain on the sale of transmission assets (Note 9)	—	543	—
Gain on the sale of real estate (Note 9)	—	154	—
Gain on the sale of Río Maipo (Note 2)	—	126	—
Write-off of the goodwill of Río Maipo (Note 7)	—	(86)	—
Gain on the sale of Viesgo	1,066	—	—
Gain on the sale of REE	—	44	—
Gains on other fixed assets	88	—	—
Gain on the sale of Made (Note 2)	—	13	—
Recognition of the nonmainland system compensation payments relating to prior years . . .	128	—	—
Recognition of prior year’s rate shortfall	86	—	—
Gain on the sale of Agbar (Note 10)	—	—	102
Reversal of provisions for Argentina (Note 15-c)	—	—	181
Gains on the sale of assets	—	—	70
Provisions released (Note 15-c)	76	35	194
Subsidies (Note 14)	25	46	44
Gain on the sale of treasury stock (Note 12)	—	14	16
Other nonoperating revenues	276	310	211
Total	<u>1,745</u>	<u>1,199</u>	<u>818</u>

The other nonoperating revenues relate to the sum of the nonrecurring items or items allocable to prior years of Group companies the individual amounts of which are not material.

The detail of the “Nonoperating Expenses” caption is as follows:

<u>Nonoperating Expenses</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Period provisions for contingencies and expenses (Note 15-c)	507	353	238
Nonoperating expenses relating to provisions for labor force reduction plans (Note 15 a-b)	77	229	125
Losses on fixed assets	26	—	—
Assignment of shortfall rights (Note 10)	—	11	—
Losses on utility plant, intangible assets and investments	68	8	—
Provision for treasury stock	75	—	—
Write-down of goodwill (Note 7)	338	—	57
Losses on utility plant, intangible assets and investments	—	45	37
Other nonoperating expenses	583	276	215
Total	<u>1,674</u>	<u>922</u>	<u>672</u>

The provisions in 2002 for contingencies and third-party liability include €145 million recorded to fully cover the direct and indirect risk exposure relating to the investments made and the loans granted to Argentine companies in view of the present uncertainty with regard to the evolution of the economic situation in Argentina, and possible losses on assets and future risks for various types of contingency in the various Latin American companies and for transactions carried out by ENDESA in that region, amounting to €174 million.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Also in 2002, as a result of the deregulation of the electricity market in Spain and of the new regulations on meters, nonoperating expenses amounting to €128 million were recorded, of which €61 million relate to provisions for contingencies and third-party liability and the remaining €67 million relate to provisions for fixed assets.

The provisions in 2003 for contingencies and third-party liability include €224 million to cover contingencies relating to outstanding litigation or third-party claims.

The remaining provisions for contingencies and third-party liability relate mainly to the additional provision to fully cover the direct and indirect risk relating to the investments in and loans to Argentine companies, as a result of the increase in the Argentine investees' net worth in 2003 (€36 million) and to future expenses incurred in extraordinary repair work and the restructuring of facilities (€41 million).

The nonoperating expenses relating to provisions for pensions and labor force reduction plans include mainly the additional provision required to cover the cost of employee early retirements as a result of having brought forward the retirement dates with respect to the dates initially envisaged of certain employees affected by the labor force reduction plans in progress and the higher-than-projected inflation.

The provisions in 2004 for contingencies and expenses relate basically to the coverage of risks due to possible third-party claims and future expenses arising from extraordinary repairs and restructuring of facilities.

The nonoperating expenses for 2004 relating to provisions for labor force reduction plans include basically the effect of higher-than-forecast inflation in 2004 and the increase from 2% to 2.3% in the inflation assumed in the actuarial studies used to record the provision (see Note 15-b).

The other nonoperating expenses relate to the sum of the nonrecurring items or items allocable to prior years of Group companies the individual amounts of which are not material.

19. The environment

The Group treats as environmental investments those made in assets which will be used on an ongoing basis to minimize the impact on, and to protect, the environment. These investments are recorded as utility plant or intangible assets in accordance with the general methods described in Notes 4-a, 4-b, and 4-c.

The main environmental investments were aimed at reducing and controlling emissions, and the treatment and subsequent discharge of water.

These investments related specifically to facilities to reduce emissions, water treatment plants, underwater discharge outlets, the burying of transmission and distribution lines and other measures aimed at minimizing environmental impact.

As of December 31, 2004 and 2003, these investments recorded on the asset side of the consolidated balance sheet amounted to €886 million and €807 million, respectively, and the related accumulated depreciation amounted to €449 million and €393 million, respectively.

Environmental expenses amounted to €126 million and €107 million in 2004 and 2003, respectively, and this amount is recorded under the "Operating Expenses" caption in the accompanying consolidated statement of income.

The possible environmental contingencies that might arise for the Group companies are covered by a third-party liability insurance policy which covers, among other contingencies, those arising from accidental pollution, waste handling and waste, radiation or electromagnetic fields.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

20. Information on the board of directors and senior executives

a) Compensation and other benefits

The Company adopted the reporting model contained in Exhibit I to the Corporate Governance Annual Report for listed companies implemented by the Spanish National Securities Market Commission, which was approved by Spanish National Securities Market Commission Circular 1/2004.

Directors' compensation in 2004

1. Directors' compensation and other benefits in 2004:

<u>Type of Compensation</u>	<u>Data in Thousands of Euros</u>
Fixed compensation	2,170 ⁽¹⁾
Variable compensation	1,349
Attendance fees	930
Bylaw-stipulated fees	—
Stock options and other financial instruments	—
Other	47
Total	<u>4,496</u>

<u>Other Benefits</u>	<u>Data in Thousands of Euros</u>
Advances	343
Loans granted	153
Pension funds and plans: contributions	4,555 ⁽²⁾
Pension funds and plans: obligations assumed	—
Life insurance premiums	225
Guarantees provided by the Company for the directors	5,865 ⁽²⁾

- (1) At all the ENDESA Group companies, the fixed compensation of the Chairman is 10% higher than that of the chief executive.
- (2) As a general rule, the Company has established a guarantee of future rights as regards compensation and pensions for employees reaching certain ages and years of service.

For the employees referred to in the preceding paragraph, these guarantees, with respect to this section, amount to €3,907 thousand in the case of “Pension Funds and Plans: Contributions” and to €5,865 thousand in the case of “Guarantees provided by the Company for the Directors”. The latter figure will decrease each year the director stays at the Company in question.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

2. Compensation and other benefits for membership of the company's directors of other Boards of Directors and/or of senior management of Group companies in 2004:

<u>Type of Compensation</u>	<u>Data in Thousands of Euros</u>
Fixed compensation	—
Variable compensation	—
Attendance fees	311
Bylaw-stipulated fees	—
Stock options and other financial instruments	—
Other	—
Total	<u>311</u>

<u>Other Benefits</u>	<u>Data in Thousands of Euros</u>
Advances	—
Loans granted	—
Pension funds and plans: contributions	—
Pension funds and plans: obligations assumed	—
Life insurance premiums	—
Guarantees provided by the Company for the directors	—

3. Total compensation by type of director in 2004:

<u>Type of Director</u>	<u>Data in Thousands of Euros</u>	
	<u>Company</u>	<u>Group</u>
Executive directors	2,984	71
Nonexecutive nominee directors	112	—
Nonexecutive independent directors	1,400	240
Other nonexecutive directors	—	—
Total	<u>4,496</u>	<u>311</u>

4. Total compensation and percentage with respect to the income attributed to the Parent Company in 2004:

Total directors' compensation (in thousands of euros)	4,807
Total directors' compensation/ income attributed to the Parent Company (expressed in %)	0.35%(*)

(*) Based on the percentage referred to in Article 40 of the Corporate Bylaws, i.e. the sum of the fixed compensation amounts and share in profits with respect to the consolidated Group's income approved by the Stockholders' Meeting, this percentage would be 0.05%.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Identification of the members of senior management who are not executive directors and detail of total compensation paid to them in the year 2004:

<u>Name</u>	<u>Position</u>
01. Francisco Borja Acha Besga	Corporate Legal Counseling Manager
02. José Damián Bogas Gálvez	General Manager for Spain and Portugal
03. Gabriel Castro Villalba	Corporate Communications Manager
04. M ^a Isabel Fernández Lozano	Corporate Control Manager
05. Ángel Ferrera Martínez	Chairman of the Advisory Board of Unelco-Endesa Canary Islands
06. Amado Franco Lahoz	Chairman of the Advisory Board of Erz-Endesa Aragón
07. José Antonio Gutiérrez Pérez	General Manager of Erz-Endesa Aragón
08. José Félix Ibáñez Guerra ⁽³⁾	General Manager—Mining
09. Pedro Larrea Paguaga	General Manager—Energy Management
10. Héctor López Vilaseco	General Manager—Energy Management Latin America
11. Alfredo Llorente Legaz ⁽³⁾⁽⁴⁾	General Manager of Endesa Diversification
12. José Luis Marín López-Otero ⁽³⁾	General Manager— Distribution
13. Alberto Martín Rivals	General Manager—Business in Latin America
14. José A. Martínez Fernández ⁽³⁾	General Manager of Sevillana-Endesa Andalucía and Extremadura
15. Germán Medina Carrillo ⁽³⁾	Corporate Human Resources Manager
16. Salvador Montejo Velilla	General Secretary and Secretary of the Board of Directors
17. Manuel Morán Casero	General Manager—Generation
18. Jesús Olmos Clavijo	General Manager for Europe
19. José Luis Palomo Álvarez	Corporate Financial and Control Manager
20. Antonio Pareja Molina ⁽³⁾	Corporate Services Manager
21. José María Plans Gómez ⁽³⁾	General Manager of Unelco-Endesa Canary Islands
22. José Luis Puche Castillejo	Corporate Audit Manager
23. Álvaro Quiralte Abelló	General Manager of Endesa Italia
24. Jaime Reguart Pelegrí ⁽³⁾	General Manager of Gesa-Endesa Balearic Islands
25. Bartolomé Reus Beltrán	Chairman of the Advisory Board of Gesa—Endesa Balearic Islands
26. Luis Rivera Novo	General Manager for Latin America
27. Juan Rosell Lastortras	Chairman of the Advisory Board of Fecsa—Endesa Cataluña
28. Jorge Rosemblut Ratinoff	Chairman of Chilectra
29. José María Rovira Vilanova ⁽³⁾	General Manager of Fecsa—Endesa Cataluña
30. Carlos Torres Vila	Corporate Strategy Manager
31. Javier Uriarte Monereo	General Manager—Marketing
32. Mario Valcarce Durán	General Manager of Enersis
33. Evaristo Villa Ruiz ⁽³⁾⁽⁴⁾	General Manager of Endesa Servicios
34. Jaime Ybarra Lloset	Chairman of the Advisory Board of Sevillana Endesa Andalucía and Extremadura
35. Pablo Yrarrazabal Valdés	Chairman of Enersis
Total compensation of senior management (in thousands of euros):	17,271

(3) They are subject to the same system as that described in note (2) section a) “Other Benefits”, with the terms and conditions specific to them.

(4) Alfredo Llorente Legaz and Evaristo Villa Ruiz took early retirement on October 1, 2004.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Compensation and other benefits in 2003

Directors' compensation in 2003

The members of the Board of Directors of ENDESA received compensation as directors of the Company and, in certain cases, as members of the Boards of Directors of investees.

The members of the Board of Directors who also discharge executive duties received compensation in this connection, as stipulated in Article 40.4 of the bylaws.

1. Compensation received for membership of the Board of Directors of Endesa, S.A.

Under Article 40 of the bylaws, the directors' compensation is made up of a fixed monthly fee and a share in profits. The overall annual compensation for the Board as a whole including both these items represents 1 per mil of the consolidated Group's income approved by the Stockholders' Meeting, although the Board of Directors can reduce this percentage in years in which it sees fit.

The fixed monthly fee for each director was €2,404.05 through June 30, 2003, and €4,006.74 from that date through December 31, 2003.

Also, pursuant to Article 40 of the bylaws, the directors receive fees for attending the meetings of the Board of Directors, the Executive Committee, the Appointments and Compensation Committee and the Audit and Compliance Committee. The fee for attending each meeting was €1,202.02 through June 30, 2003, and €2,003.37 from that date through December 31, 2003.

The detail of the amounts received in 2003 is as follows:

	Euros 2003
Fixed monthly fee	538,422
Share in profits	192,476
Fees for attending meetings of the Board of Directors, the Executive Committee, the Audit and Compliance Committee and the Appointments and Compensation Committee	602,613
Total	1,333,511

* The amount relating to the share in profits will not be received until the consolidated Group's financial statements have been approved by the Stockholders' Meeting.

To date ENDESA has not established any compensation plan tied to the share market price or any stock option plans. Therefore, the members of the Board of Directors did not receive any amount in this connection.

2. Compensation received for membership of other Boards of Directors

The compensation received by the members of the Board of Directors of Endesa for their membership of the Boards of Directors of investees amounted to €233,013 in 2003.

Salaries

Following is a description of the fixed and variable compensation received by the executives and employees who are members of the Board of Directors of ENDESA. The variable compensation is determined by applying a percentage of the fixed compensation in each case, based on the degree to which certain targets are met.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The detail of the amounts received in 2003 is as follows:

<u>Concept</u>	<u>Euro</u>
Fixed compensation	1,357,790
Variable compensation	480,835
Total	<u>1,838,625</u>

A non-periodic extraordinary variable compensation payment earned in 2000, 2001 and 2002, totaling €659,267 was collected in 2003, pursuant to the resolution adopted by the Board of Directors on May 9, 2000, and the related provisions were recorded in the financial statements for the respective years.

3. Pension and life and accident insurance premium payment obligations

The pension and life and accident insurance premium payment obligations to the directors in their capacity as such amounted to €79,936 in 2003.

The pension and life and accident insurance premium payment obligations to the directors in their capacity as executives amounted to €875,316 in 2003.

The members of the Board of Directors are covered by the same third-party liability insurance policy as that covering all the directors and executives of ENDESA and its investees.

Advances

The members of the Board of Directors do not receive advances in their capacity as directors.

Compensation of senior executives in 2003

1. Salaries

The senior executives have their compensation and rights defined in the contract that establishes their professional relationship with ENDESA in the terms and conditions approved by the Appointments and Compensation Committee.

The compensation consists of a fixed component and a variable component. The variable compensation is determined by applying a percentage to the fixed compensation in each case, based on the degree to which certain targets are met, and the compensation, if any, received for attending meetings of the Boards of Directors of other investees is deducted therefrom.

The table below shows the amounts of fixed and variable compensation received by the 34 senior executives of ENDESA, excluding the directors who are also senior executives, whose compensation is shown above.

The variable compensation relating to the whole of 2003 have been received in 2004, on the basis of the fulfillment of the targets set in 2003. The detail of the amounts received in 2003 is as follows:

<u>Concept</u>	<u>Euro</u>
Fixed compensation	9,479,989
Variable compensation*	2,057,609
Other amounts received and compensation in kind	290,215
Total	<u>11,827,813</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

In 2003 a non-periodic extraordinary variable compensation payment earned in 2000, 2001 and 2002, totaling €6,518,400 was received by the senior executives, pursuant to the resolution adopted by the Board of Directors on May 9, 2000, and the related provisions were recorded in the financial statements for the respective years.

To date ENDESA has not established any compensation plan tied to the share market price or any stock option plans. Therefore, the senior executives did not receive any amount in this connection.

Pension and life and accident insurance premium payment obligations

The pension and life and accident insurance premium payment obligations to senior executives amounted to €5,207,209 in 2003.

The senior executives are covered by the same third-party liability insurance policy as that covering all the directors and executives of ENDESA and its investees.

2. Advances and loans granted in 2003

The outstanding principal as of December 31, 2003, of the advances and loans granted to the senior executives, including those who are also directors, in their capacity as senior executives, amounted to €6,391,875 of which €4,224,658 in 2003 bear interest tied to EURIBOR + 0.5% and €2,167,217 relate to interest-free advances. These advances and loans are repayable at over one year.

In order to comply with the rules in force in the markets on which its shares are listed, the Company has not granted any advances or loans to its senior executives since the approval, in the U.S., of the Sarbanes – Oxley Law in July 2002, and it has not modified the terms and conditions of these already existing at that date.

Guarantee clauses for senior management members, including the executive directors of the company or its group, in the event of dismissal or changes in control in 2004

Number of beneficiaries: 29

Body authorizing clauses: Board of Directors

These clauses are the same in all the contracts of the Executive Directors and Senior Executives of the company and of its Group and, as can be observed from the reports requested by the company, they are in line with standard practice in the market. They were approved by the Board of Directors following the report of the Appointments and Compensation Committee and provide for severance in the event of termination of the employment relationship and a post-contractual non-competition clause. The regime for these clauses is as follows:

Termination of the employment relationship:

1. By mutual agreement: severance equal to three times the annual compensation.
2. At the unilateral decision of the executive: no entitlement to severance, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the company of its obligations or of the rendering of the position devoid of content, in which case the severance described in the preceding point applies.
3. As a result of termination by the company: severance equal to that described in the first point.
4. At the decision of the company based on the serious willful misconduct or negligence of the executive in discharging his duties: no entitlement to severance.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

These conditions are alternatives to those derived from the preexisting employment relationship for the CEO and senior executives.

Post-contractual non-competition clause:

1. Two years. As consideration, the executive is entitled to an amount equal to one annual fixed compensation payment.

b) Other information on the board of directors in 2004

Pursuant to Article 127 ter. of the Spanish Corporations Law, introduced by Law 26/2003, which amends Securities Market Law 24/1988, and the revised Spanish Corporations Law, in order to reinforce the transparency of listed corporations, following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Endesa, S.A. in which the members of the Board of Directors own equity interests, and of the functions or positions, if any, that they discharge or hold thereat:

Name of the Director	Employer Identification Number of the Company in Question	Name of the Company in Question	Percentage Of Ownership	Position
Rafael Miranda Robredo	A 78003662	Red Eléctrica España, S.A.	0.00024	None
	A 62530175	Gas Natural, S.A.	0.00017	None
Francisco Núñez Boluda	A 48010615	Iberdrola, S.A.	0.00013	None
	A 28005239	Unión Fenosa, S.A.	0.00098	None
Juan Ramón Quintás Seoane	A 48010615	Iberdrola, S.A.	0.00018	None
Francisco Javier Ramos Gascón . . .	A 48010615	Iberdrola, S.A.	0.00104	None
	A 28005239	Unión Fenosa, S.A.	0.00277	None
	A 78003662	Red Eléctrica España, S.A.	0.00028	None
	00811720580	ENEL, SpA	0.00004	None
José Serna Masiá	A 48010615	Iberdrola, SA	0.00091	None
	A 28005239	Unión Fenosa, SA	0.00098	None

Also, pursuant to the aforementioned Law, there is no record that any members of the Board of Directors carry on, or carried on in 2004, activities, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the corporate purpose of Endesa, S.A.:

In 2004 there were no cases of conflict of interest involving the directors, without prejudice to the abstentions recorded, even though no conflict existed and with a view to taking the utmost precaution, in the minutes of the meetings of the governing bodies of the Company.

21. Commitments and contingencies

Under current legislation in Spain and pursuant to Spanish Electricity System Law 54/1997, the Group is insured against third-party liability claims for nuclear accidents arising from the operation of nuclear plants up to €156 million. Any damages in excess of this amount would be governed by the international conventions entered into by the Spanish State. The nuclear power plants are also insured against damage to their installations and machinery breakdowns, with maximum coverage of €700 million for each power plant.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

As of December 31, 2004 and 2003, the ENDESA Group had provided guarantees to third parties derived from its business activities totaling €10,692 million and €11,188 million, of which €10,213 million and €10,481 million relate to guarantees provided for Group companies to secure debts included on the liability side of the consolidated balance sheet, relating mainly to the marketable security issues of Internacional Endesa, B.V.

As of December 31, 2004 and 2003, the Group had arranged electricity options and futures transactions for 48,922 GWh and 35,213 GWh, and there was an open position on 97 GWh and 329 GWh, respectively. The effect of the valuation of the open positions as of December 31, 2004 and 2003, is not material.

The Group assigned a put option on 5.33% of ENDESA Italia to ASM BRESCIA for €145 million plus the related interest (see Note 24).

Litigation and arbitration

As of the date of preparing these consolidated financial statements, the main lawsuits or arbitration proceedings involving the companies of the Group were as follows:

1. In 2002 EDF International filed a request for arbitration at the International Court of Arbitration of the International Chamber of Commerce against ENDESA Internacional, S.A., Repsol YPF, S.A. and YPF, S.A. seeking an order against ENDESA Internacional, S.A. to pay EDF International US\$ 256 million plus interest, and against Repsol YPF Group to pay US\$ 69 million plus interest. ENDESA Internacional, S.A., Repsol YPF, S.A. and YPF, S.A. filed an answer and a counterclaim seeking an order against EDF International to pay ENDESA Internacional US\$ 58 million and YPF S.A. US\$ 14 million. This dispute arose from the sale to the French EDF Group of the holdings of YPF, S.A. and ENDESA Internacional in the Argentinean companies Easa and Edenor.
2. There are four complaints against Endesa Distribución Eléctrica seeking damages for four separate fires in various areas on the Spanish mainland, and the quantum claimed ranges from €4 million to €32 million.
3. The Spanish State Auditing Agency issued an adverse report on certain subsidies received by ENCASUR, which, should it be confirmed by the competent instances, would result in a proceeding being instituted for repayment of the subsidies amounting to approximately €37 million.
4. Through December 31, 1996, ENDESA and its subsidiaries were taxed for corporate income tax purposes as part of the consolidated tax group of Sociedad Estatal de Participaciones Industriales (SEPI).

The Corporate Income Tax Law provides that companies leaving the Group are entitled to take tax credits not used by the Group if the companies contributed to the generation of the tax credits. Accordingly, the financial and tax inspection authorities issued reports to ENDESA and UNELCO recognizing the right of these companies to take the tax credits for investments that they had generated from 1992 through 1996 from 1997 onwards.

However, subsequently, as a result of the inspection conducted at SEPI, in the assessment issued against the SEPI Group relating to 1996, the financial and tax inspection authorities took all or some of the tax credits generated from 1992 through 1996 by the companies of the ENDESA Group. On June 14, 2001, the Secretary of State for Finance handed down two separate decisions declaring the reports issued to ENDESA and UNELCO and recognizing their right to take the tax credits generated in the aforementioned years to be injurious.

Proceedings for judicial review as a result of the aforementioned decisions were instituted at the National Appellate Court, which dismissed the tax authorities' case. Accordingly, the tax authorities have appealed to the Supreme Court.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The financial and tax inspection authorities also issued assessments against ENDESA disallowing its right to take the tax credits generated from 1992 through 1996.

The tax credits that could be affected by the outcome of the proceedings described above amount to €232 million.

1. The reform of the Local Finances Law, effective from January 1, 2003, modified the air, surface and subsurface charge for occupying the local public domain and included electricity retailers as parties liable to pay this charge, despite their not owning the electricity distribution systems occupying the local public domain. However, certain Municipal Councils are issuing assessments against ENDESA Energía, S.A. for the payment of the charge relating to 2002 and prior years. Since there are conflicting decisions by the various High Courts on the appropriateness of these assessments, the final decision will lie with the Supreme Court. The total amount disputed in the lawsuits filed is €9 million, although the maximum exposure arising from this issue is quantified at €42 million.
2. The Peruvian tax authorities (SUNAT) have been questioning the tax effects of the revaluation by Edegel when the spin-off took place in 1996. With respect to the matters in dispute, Edegel has obtained decisions upholding its case at two instances (Arbitral Tribunal and Tax Tribunal), and the SUNAT are currently reviewing the correctness of the values then ascribed in the course of the revaluation. As of the date of preparing these financial statements, the result was not quantifiable, since the previous assessments had been rendered void and no new assessments issued yet. Endesa has a 13.78% economic interest in EDEGEL.
3. The Brazilian customs authorities (DECEX) have challenged the applicability of a special customs arrangement for imported products, granted previously in 1998 to the Brazilian subsidiary Cien. On December 15, 2004, the Brazilian tax authorities ruled that CIEN had to pay BRL 187 million (approximately €52 million) in respect of taxes, interest and a penalty on products imported through the State of Río de Janeiro. This ruling has been appealed to the Administrative Tribunal.
4. ENDESA's Brazilian subsidiary Companhia de Electricidade do Rio de Janeiro, S.A. (Ampla) won a claim filed against the Brazilian Government and arguing that Ampla did not have to pay contributions for the financing of the social security system (COFINS). This tax is levied on revenues from sales of electricity. The Court upheld the previous judgment and declared it final. In 1997 the Brazilian Government filed an "Ação Rescisória," a special proceeding for reviewing final judgments. The disputed amount is approximately US\$ 100 million.
5. Public Emergency and Regime Reform Law 25561, enacted by the Argentinean authorities on January 6, 2002, rendered void certain conditions of the concession agreement of the Group subsidiary Edesur. Law 25561 also required public service concession agreements to be renegotiated within a reasonable period of time in order to adapt them to the new situation.

The failure to renegotiate the agreement prompted the Chilean corporate stockholders of Edesur, subsidiaries of Endesa, to file a request for arbitration in 2004 pursuant to the Treaty on the Promotion and Protection of Chilean and Argentinean Investments with the International Center for the Settlement of Investment Disputes (ICSID). The arbitration to defend the lawful rights of the stockholders of Edesur was in progress as of the date of preparing these financial statements.

The Group's directors consider that the provisions recorded in these consolidated financial statements cover adequately the risks relating to lawsuits, arbitration proceedings and other transactions described in this Note and, accordingly, they do not expect any liabilities additional to those disclosed.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

22. Unbundling of activities

The financial statements unbundled by business activity are presented below in accordance with Law 54/1997.

In relation to the electricity activities carried on abroad, a distinction is drawn between the activities carried on in Europe, substantially all of which relate to generation, and those carried on in Latin America, which in turn are unbundled by activity.

Consolidated balance sheets, by activity, as of December 31, 2004

	Millions of Euros															
	Generation (*)			Retailing			Other Non-Electricity Activities(*)			Activities Performed Abroad		Adjustments between Activities	Consolidated Total			
	%	Distribution	%	%	Electricity Activities(*)	%	Europe(*)	%	Latin America	%	Corporate Activities					
Assets:																
1. Due from stockholders for uncalled capital	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	—		
2. Fixed and other noncurrent assets	9,912	13	8,948	12	59	—	1,712	2	3,813	5	10,075	14	40,081	54	(39,471)	35,129
2.1. Intangible assets	38	10	150	39	27	7	17	5	12	3	108	28	30	8	—	383
2.2. Utility plant	8,725	31	7,496	26	6	—	71	—	3,526	12	9,002	31	11	—	325	29,162
2.2.1. Electricity plant	20,121	41	11,882	24	15	—	107	—	5,662	11	11,981	24	—	—	312	50,080
2.2.2. Electricity plant in progress	862	39	686	31	—	—	—	—	358	16	304	14	—	—	—	2,210
2.2.3. Other tangible fixed assets	1,090	26	517	13	2	—	122	3	1,260	31	1,105	27	19	—	(3)	4,112
2.2.4. Advances and other construction work in progress	16	10	12	8	1	1	4	3	—	—	118	78	—	—	—	151
2.2.5. Depreciation of electricity plant	(12,308)	49	(5,286)	21	(12)	—	(52)	—	(3,122)	13	(4,147)	17	—	—	4	(24,923)
2.2.6. Other depreciation	(939)	41	(237)	10	—	—	(110)	5	(632)	28	(358)	16	(8)	—	3	(2,281)
2.2.7. Allowances	(117)	60	(78)	40	—	—	—	—	—	—	(1)	—	—	—	9	(187)
1,149	2	1,302	3	26	—	—	1,624	4	275	1	965	2	40,040	88	(39,797)	5,584
2.3. Long-term investments	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	—
2.4. Treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Consolidation goodwill	27	3	115	11	—	—	556	12	1,535	35	2,322	53	—	—	(2)	4,413
4. Deferred charges	1,646	17	1,383	15	628	7	66	—	37	4	139	13	709	69	(360)	667
5. Current assets	497	62	16	2	14	2	1	—	833	9	2,334	25	2,480	26	(1,548)	7,822
5.1. Inventories	1,036	22	1,326	28	610	13	35	1	189	23	86	11	—	—	3	806
5.2. Trade receivables	113	3	41	1	4	—	30	1	542	11	1,035	21	200	4	(319)	4,465
5.3. Other current assets	—	—	—	—	—	—	—	—	102	3	1,213	32	2,280	60	(1,232)	2,551
Total assets	11,585	13	10,448	12	687	1	2,334	3	6,218	7	14,870	16	43,270	48	(41,381)	48,031
Stockholders' equity and liabilities																
1. Stockholders' equity	4,764	16	1,967	6	16	—	212	1	1,683	5	2,622	9	19,289	63	(21,076)	9,477
2. Minority interests	16	1	10	—	—	—	—	—	630	15	3,464	84	—	—	1,591	5,711
3. Negative consolidation goodwill	—	—	—	—	—	—	—	—	—	—	12	100	—	—	—	12
4. Deferred revenues	94	4	1,411	66	1	—	10	1	520	24	97	4	15	1	—	2,149
4.1. Capital subsidies	94	8	1,121	92	—	—	—	—	2	—	—	—	—	—	—	1,217
4.2. Other	—	—	290	31	1	—	10	1	518	56	97	10	15	2	—	932
5. Provisions for contingencies and expenses	1,315	30	1,628	37	54	1	133	3	258	6	625	14	396	9	(40)	4,369
6. Long-term debt	3,908	10	3,539	9	153	—	1,794	5	2,182	6	6,411	17	19,895	53	(20,324)	17,558
7. Current liabilities	1,488	14	1,893	18	463	5	185	2	945	9	1,639	16	3,675	36	(1,533)	8,755
Total stockholders' equity and liabilities	11,585	13	10,448	12	687	1	2,334	3	6,218	7	14,870	16	43,270	48	(41,381)	48,031

(*) The effect of consolidating the ECYR Group and the Portuguese companies TEJO, S.A., PEGOP, S.A. and CARBOPEGO, S.A., which as of December 31, 2003, had been included under "Other Non-Electricity Activities" and "Europe", respectively, was included in "Generation".

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Consolidated statements of income, by activity, as of December 31, 2004

	Millions of Euros															
	Generation (*)		Other Non-Electricity Activities (*)				Activities Performed Abroad				Corporate Activities		Adjustments Between Activities		Consolidated Total	
			%	Distribution	%	Retailing	%	Europe (*)	%	Latin America						%
Net sales and services	4,222	22	5,454	29	2,181	12	241	1	2,559	14	4,017	21	158	1	(1,190)	17,642
- Sales allocated among activities	442	100	—	—	—	—	—	—	—	—	4,017	—	—	—	(442)	—
Other operating revenues	45	9	175	35	70	14	17	4	46	9	123	25	20	4	(73)	423
= Production value	4,709	24	5,629	29	2,251	11	258	1	2,605	13	4,140	21	178	1	(1,705)	18,065
Materials used	(2,211)	23	(2,927)	30	(1,338)	14	(16)	—	(1,679)	18	(1,429)	15	(3)	—	439	(9,164)
- Procurements allocated among activities	—	—	(442)	100	—	—	—	—	—	—	—	—	—	—	442	—
External and operating expenses	(542)	15	(930)	26	(755)	22	(162)	5	(252)	7	(810)	23	(61)	2	836	(2,676)
= Value added by the Company	1,956	31	1,330	21	158	3	80	1	674	11	1,901	31	114	2	12	6,225
- Personnel expenses	(340)	26	(380)	30	(43)	3	(51)	4	(115)	9	(277)	22	(82)	6	—	(1,288)
= Gross operating income	1,616	33	950	19	115	2	29	1	559	11	1,624	33	32	1	12	4,937
- Depreciation and amortization expense	(626)	38	(378)	23	(11)	1	(23)	1	(163)	10	(419)	26	(23)	1	—	(1,643)
- Bad debts and variation in operating allowances	(8)	15	(16)	31	(4)	8	2	(4)	(2)	4	(24)	46	—	—	—	(52)
= Net operating income	982	31	556	17	100	3	8	—	394	12	1,181	37	9	—	12	3,242
+ Financial revenues	29	2	9	1	5	—	74	6	6	1	373	30	750	60	(754)	492
- Financial expenses	(205)	9	(190)	9	(6)	—	(80)	4	(79)	4	(698)	32	(899)	42	742	(1,415)
- Depreciation and amortization expense and investment valuation provisions	(3)	75	—	—	—	—	2	(50)	—	—	(1)	25	(2)	50	—	(4)
+ Equity in the income/losses of companies accounted for by the equity method	28	33	1	1	—	—	25	30	10	12	16	19	4	5	—	84
- Amortization of consolidation goodwill	—	—	—	—	—	—	(36)	11	(90)	29	(186)	60	—	—	—	(312)
= Ordinary income	831	40	376	18	99	5	(7)	—	241	11	685	33	(138)	(7)	—	2,087
+ Gains on fixed assets and nonoperating revenues	85	10	139	17	18	2	153	18	48	6	358	43	30	4	(13)	818
- Losses on fixed assets and nonoperating expenses	(217)	32	(121)	18	(25)	3	(27)	4	(7)	1	(250)	36	(39)	6	13	(673)
- Variation in intangible asset, utility plant and investment valuation allowances	5	500	(4)	(400)	—	N/A	—	N/A	—	N/A	—	N/A	—	N/A	—	1
= Income (Loss) before taxes	704	31	390	18	92	4	119	5	282	13	793	36	(147)	(7)	—	2,233
- Corporate income tax	(146)	37	(90)	23	(32)	8	(17)	4	(104)	26	(173)	43	162	(41)	—	(400)
= Income after taxes	558	30	300	16	60	3	102	6	178	10	620	34	15	1	—	1,833
- Income attributed to minority interests	(1)	—	(3)	1	—	—	(2)	1	(33)	7	(350)	77	(65)	14	—	(454)
Net income (loss) at 12-31-04	557	40	297	22	60	4	100	7	145	11	270	20	(50)	(4)	—	1,379

(*) The effect of consolidating the ECYR Group and the Portuguese companies TEJO, S.A., PEGOP, S.A. and CARBOPEGO, S.A., which as of December 31, 2003, had been included under "Other Non-Electricity Activities" and "Europe", respectively, was included in "Generation".

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Unbundled balance sheets relating to activities in Latin America in 2004.

	Millions of Euros											
	Generation	%	Distribution	%	Corporate Activities	%	Electricity Activities	%	Unallocated Adjustments	%	Latin America	
Assets:												
1. Due from stockholders for uncalled capital	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0%
2. Fixed and other noncurrent assets	6,400	63.5	1,800	17.9	5,704	56.6	93	0.9	(3,922)	(38.9)	10,075	100.0%
2.1. Intangible assets	72	66.7	35	32.4	1	0.9	—	0.0	—	0.0	108	100.0%
2.2. Utility plant	5,878	65.3	3,029	33.6	18	0.2	85	0.9	(8)	(0.1)	9,002	100.0%
2.2.1. Electricity plant	7,915	66.1	4,070	34.0	4	0.0	—	0.0	(8)	(0.1)	11,981	100.0%
2.2.2. Electricity plant in progress	120	39.5	184	60.5	—	0.0	—	0.0	—	0.0	304	100.0%
2.2.3. Other tangible fixed assets	643	58.2	324	29.3	32	2.9	106	9.6	—	0.0	1,105	100.0%
2.2.4. Advances and other construction work in progress	1	0.8	109	92.4	—	0.0	8	6.8	—	0.0	118	100.0%
2.2.5. Depreciation of electricity plant	(2,662)	64.2	(1,468)	35.4	(17)	0.4	—	0.0	—	0.0	(4,147)	100.0%
2.2.6. Other depreciation	(138)	38.5	(190)	53.1	(1)	0.3	(29)	8.1	—	0.0	(358)	100.0%
2.2.7. Allowances	(1)	100.0	—	0.0	—	0.0	—	0.0	—	0.0	(1)	100.0%
2.3. Long-term investments	450	46.6	(1,264)	(131)	5,685	589.1	8	0.8	(3,914)	(405.6)	965	100.0%
2.4. Treasury stock	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0%
3. Goodwill	107	4.6	345	14.9	1,196	51.5	—	0.0	674	29.0	2,322	100.0%
4. Deferred charges	55	39.6	72	51.8	19	13.7	2	1.4	(9)	(6.5)	139	100.0%
5. Current assets	1,002	42.9	1,312	56.2	363	15.6	131	5.6	(474)	(20.3)	2,334	100.0%
5.1. Inventories	30	34.9	19	22.1	—	0.0	37	43.0	—	0.0	86	100.0%
5.2. Trade receivables	404	39.0	676	65.3	18	1.7	53	5.1	(116)	(11.2)	1,035	100.0%
5.3. Other current assets	568	46.8	617	50.9	345	28.4	41	3.4	(358)	(29.5)	1,213	100.0%
Total assets	7,564	50.9	3,529	23.7	7,282	49.0	226	1.5	(3,731)	(25.1)	14,870	100.0%
Stockholders' equity and liabilities:												
1. Stockholders' equity	840	32.0	(1,051)	(40.1)	4,919	187.6	133	5.1	(2,219)	(84.6)	2,622	100.0%
2. Minority interests	1,944	56.1	1,323	38.2	—	0.0	40	1.2	157	4.5	3,464	100.0%
3. Negative consolidation goodwill	265	2,208	9	75.0	1	8.3	—	0.0	(263)	2,191.7	12	100.0%
4. Deferred revenues	5	5.2	100	103.1	51	52.6	—	0.0	(59)	(60.8)	97	100.0%
4.1. Capital subsidies	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0%
4.2. Other	5	5.2	100	103.1	51	52.6	—	0.0	(59)	(60.8)	97	100.0%
5. Provisions for contingencies and expenses	139	22.2	365	58.4	151	24.2	3	0.5	(33)	(5.3)	625	100.0%
6. Long-term debt	3,518	54.9	1,898	29.6	1,937	30.2	6	0.1	(948)	(14.8)	6,411	100.0%
7. Current liabilities	853	52.0	885	54.0	223	13.6	44	2.7	(366)	(22.3)	1,639	100.0%
Total stockholders' equity and liabilities	7,564	50.9	3,529	23.7	7,282	49.0	226	1.5	(3,731)	(25.1)	14,870	100.0%

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Unbundled cost accounting statements of income relating to activities in Latin America in 2004

	Millions of Euros										
	Generation	%	Distribution	%	Corporate Activities	%	Other Non-Electricity Activities	%	Unallocated Adjustments	%	Latin America
Net sales and services	1,876	46.7	2,663	66.3	(3)	(0.1)	152	(16.7)	(671)	(16.7)	4,017
- Sales allocated among activities	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
Other operating revenues	21	17.1	81	65.9	1	0.8	58	(30.9)	(38)	(30.9)	123
= Production value	1,897	45.8	2,744	66.3	(2)	0.0	210	(17.1)	(709)	(17.1)	4,140
Materials used	(488)	34.1	(1,459)	102.1	—	0.0	(63)	(40.7)	581	(40.7)	(1,429)
- Procurements allocated among activities	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
External and operating expenses	(383)	47.3	(409)	50.5	(66)	8.1	(81)	(15.9)	129	(15.9)	(810)
= Value added by the Company	1,026	54.0	876	46.1	(68)	(3.6)	66	0.1	1	0.1	1,901
- Personnel expenses	(61)	22.0	(156)	56.4	(20)	7.2	(40)	14.4	—	0.0	(277)
= Gross operating income (loss)	965	59.4	720	44.3	(88)	(5.4)	26	0.1	1	0.1	1,624
- Depreciation and amortization expense	(223)	53.2	(193)	46.1	(1)	0.2	(2)	0.0	—	0.0	(419)
- Bad debts and variation in operating allowances	—	0.0	(24)	100.0	—	0.0	—	0.0	—	0.0	(24)
= Net operating income (loss)	742	62.8	503	42.6	(89)	(7.5)	24	0.1	1	0.1	1,181
+ Financial revenues	154	41.3	189	50.6	171	45.8	1	(38.1)	(142)	(38.1)	373
- Financial expenses	(369)	52.9	(311)	44.6	(158)	22.6	(1)	(20.2)	141	(20.2)	(698)
- Depreciation and amortization expense and investment valuation provisions	(1)	100.0	—	0.0	—	0.0	—	0.0	—	0.0	(1)
+ Equity in the income/losses of companies accounted for by the equity method	27	168.8	(7)	(43.8)	(1)	(6.3)	(3)	(18.8)	—	0.0	16
- Amortization of consolidation goodwill	(8)	4.3	(23)	12.4	(155)	83.3	—	0.0	—	0.0	(186)
= Ordinary income (loss)	545	79.6	351	51.2	(232)	(33.9)	21	0.0	—	0.0	685
+ Gains on fixed assets and nonoperating revenues	69	19.3	81	22.6	202	56.4	6	1.7	—	0.0	358
- Losses on fixed assets and nonoperating expenses	(93)	37.2	(132)	52.8	(22)	8.8	(3)	1.2	—	0.0	(250)
- Variation in intangible asset, utility plant and investment valuation allowances	—	0.0	—	0.0	—	0.0	—	0.0	—	0.0	—
= Income (Loss) before taxes	521	65.7	300	37.8	(52)	(6.6)	24	3.0	—	0.0	793
- Corporate income tax	(92)	53.2	(79)	45.7	2	(1.2)	(4)	2.3	—	0.0	(173)
= Income (Loss) after taxes	429	69.2	221	35.6	(50)	(8.1)	20	3.2	—	0.0	620
- Income attributed to minority interests	(254)	72.6	(70)	20.0	(25)	7.1	(1)	0.3	—	0.0	(350)
= Income (Loss) for the year attributed to the Parent Company	175	64.8	151	55.9	(75)	(27.8)	19	7.1	—	0.0	270

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Balance sheet by activity and cost accounting statement of income by activity for 2003

	Millions of Euros																	
	Generation			Distribution			Retailing			Other Non-electricity Activities			Activities Carried on Abroad			Corporate Activities	Unallocated Adjustments	Total
	%		%	%		%	%		%		%	%		%				
Assets:																		
1. Due from stockholders for uncalled capital	9,313	N/A	13	8,222	N/A	12	130	N/A	3	3,109	4	9,903	14	N/A	—	—	0	
2. Fixed and other noncurrent assets																		
2.1. Intangible assets and start-up expenses	29	5	157	25	4	29	40	7	125	22	26	5	28	540	(38,534)	(28)	540	
2.2. Utility plant	8,217	31	6,746	25	7	465	2,605	10	8,575	32	12	335	26,962	335	320	26,962	335	
2.2.1. Electricity plant	19,522	43	11,105	24	16	543	3,967	9	10,633	23	—	—	46,106	—	—	46,106	—	
2.2.2. Electricity plant in progress	467	20	467	20	—	52	400	17	978	41	—	—	2,364	—	—	2,364	—	
2.2.3. Other tangible fixed assets	1,087	31	478	14	2	132	4	907	25	918	26	19	3,540	(3)	(3)	3,540	(3)	
2.2.4. Advances and other construction work in progress	14	14	22	—	—	2	—	—	63	62	—	—	101	—	—	101	—	
2.2.5. Depreciation of electricity plant	(11,811)	51	(5,082)	22	(11)	(152)	(2,219)	10	(3,734)	16	—	—	(23,003)	6	6	(23,003)	6	
2.2.6. Other depreciation	(937)	47	(222)	11	—	(109)	(447)	22	(283)	14	(7)	—	(2,002)	3	3	(2,002)	3	
2.2.7. Allowances	(125)	82	(22)	14	—	(3)	(3)	2	1,203	3	39,126	87	(144)	9	(38,841)	6,159	(144)	
2.3. Long-term investments	1,067	2	1,319	3	98	1,723	4	464	1	1,203	3	—	17	—	—	17	—	
2.4. Treasury stock	—	—	—	—	—	417	1,619	35	2,548	56	—	—	4,584	(9)	(9)	4,584	(9)	
3. Consolidation goodwill	—	—	—	—	—	1	—	—	149	14	752	71	(385)	(385)	(385)	677	(385)	
4. Deferred charges	21	2	136	13	—	164	2	486	5	2,393	24	3,700	(2,632)	(2,632)	(2,632)	7,108	(2,632)	
5. Current assets	1,235	13	1,268	13	494	5	82	13	76	12	360	8	3,340	(213)	(213)	4,096	(213)	
5.1. Inventories	464	72	16	3	4	104	2	351	8	1,076	25	26	2,368	(2,420)	(2,420)	2,368	(2,420)	
5.2. Trade receivables	710	17	1,229	29	479	59	53	1	1,241	26	—	—	43,633	—	—	43,633	—	
5.3. Other current assets	61	1	23	1	11	2,936	3	5,217	6	14,993	17	50	46,047	(41,560)	(41,560)	46,047	(41,560)	
Total assets	10,569	12	9,635	11	624	1	2,936	3	5,217	6	14,993	17	43,633	50	(41,560)	46,047	46,047	
Stockholders' equity and liabilities:																		
1. Stockholders' equity	4,298	15	1,783	6	90	320	1	1,496	5	2,308	8	19,165	65	(20,659)	(20,659)	8,801	(20,659)	
2. Minority interests	—	—	10	—	—	50	2	355	11	2,935	87	1,595	4,945	1,595	1,595	4,945	1,595	
3. Negative consolidation goodwill	27	24	68	59	—	3	—	—	17	15	—	—	(102)	(102)	(102)	13	(102)	
4. Deferred revenues	95	6	1,211	77	1	109	7	2	141	9	22	1	(69)	(69)	(69)	1,512	(69)	
4.1. Capital subsidies	94	9	949	90	—	5	1	2	—	—	—	—	(21)	(21)	(21)	1,029	(21)	
4.2. Other	1	—	262	49	1	104	20	—	141	27	22	4	(48)	(48)	(48)	483	(48)	
5. Provisions for contingencies and expenses	1,291	28	1,757	39	30	190	4	130	3	773	17	379	(48)	(48)	(48)	4,502	(48)	
6. Long-term debt	3,660	10	2,665	7	169	1,952	5	2,192	6	6,579	17	20,121	(19,756)	(19,756)	(19,756)	17,582	(19,756)	
7. Current liabilities	1,198	11	2,141	19	334	312	3	1,042	9	2,240	20	3,946	(2,521)	(2,521)	(2,521)	8,692	(2,521)	
Total stockholders' equity and liabilities	10,569	12	9,635	11	624	1	2,936	3	5,217	6	14,993	17	43,633	50	(41,560)	46,047	46,047	

Endesa, S.A. and Subsidiaries
Notes to 2004 and 2003 consolidated financial statements—(Continued)
Consolidated Statements of Income, by activity, as of December 31, 2003

	Millions of Euros												Total Consolidated			
	Generation	Distribution		Retailing		Other Non-electricity Activities		Activities Carried on Abroad				Allocations Between Activities				
		%	%	%	%	%	%	Europe	Latin America	%	Corporate Activities			%		
Revenues and expenses:																
Net sales and services	3,535	21	5,648	33	1,594	10	403	2	1,973	12	3,545	21	238	1	(697)	16,239
- Sales allocated among activities	613	134	(155)	(34)	—	—	—	—	—	—	—	—	—	—	(458)	—
Other operating revenues	76	15	160	32	61	12	41	8	64	13	78	16	18	4	(93)	405
= Production value	4,224	24	5,653	32	1,655	9	444	3	2,037	11	3,623	20	256	1	(1,248)	16,644
Materials used	(1,753)	20	(3,054)	36	(982)	11	(54)	1	(1,461)	17	(1,184)	14	(101)	1	95	(8,494)
- Procurements allocated among activities	—	—	(458)	100	—	—	—	—	—	—	—	—	—	—	458	—
External and operating expenses	(412)	15	(804)	28	(549)	19	(233)	—	8	(114)	4	(675)	24	2	695	(2,157)
= Value added of the company	2,059	34	1,337	22	124	2	157	3	462	8	1,764	29	90	2	—	5,993
- Personnel expenses	(328)	28	(351)	29	(37)	3	(56)	5	(78)	7	(260)	22	(76)	6	—	(1,186)
= Gross operating income	1,731	36	986	21	87	2	101	2	384	8	1,504	31	14	—	—	4,807
- Depreciation and amortization expense	(629)	39	(374)	23	(10)	1	(53)	3	(116)	7	(413)	26	(11)	—	—	(1,606)
- Bad debts and variation in operating allowances	(9)	16	(26)	45	0	—	(2)	4	—	—	(20)	35	—	—	—	(57)
= Net operating income (loss)	1,093	35	586	19	77	2	46	2	268	8	1,071	34	3	—	—	3,144
+ Financial revenues	13	1	6	—	4	—	76	5	6	1	680	44	763	49	(633)	915
- Financial expenses	(157)	7	(176)	8	(11)	1	(88)	4	(51)	2	(880)	38	(915)	40	—	(1,645)
- Depreciation and amortization expense and investment valuation provisions	—	—	1	(20)	—	—	(6)	120	—	—	—	—	—	—	—	(5)
+ Equity in the income/losses of companies accounted for by the equity method	—	—	1	3	—	—	(17)	(57)	22	74	18	60	6	20	—	30
- Amortization of consolidation goodwill	—	—	—	—	—	—	(27)	9	(91)	32	(171)	59	—	—	—	(289)
= Ordinary income (loss)	949	44	418	20	70	3	(16)	(1)	154	7	718	34	(143)	(7)	—	2,150
+ Gains on fixed assets and nonoperating revenues	74	6	661	51	26	2	38	3	1	—	266	21	219	17	—	1,285
- Losses on fixed assets and nonoperating expenses	(283)	28	(220)	22	(3)	—	(40)	4	(5)	1	(366)	37	(83)	8	—	(1,000)
- Variation in intangible asset, utility plant and investment valuation allowances	(15)	187	—	—	—	—	(3)	38	—	—	—	—	10	(125)	(8)	(8)
= Income (Loss) before taxes	725	30	859	35	93	4	(21)	(1)	150	6	618	26	3	—	—	2,427
- Corporate income tax	(243)	44	(155)	28	(32)	6	(1)	—	(46)	9	(79)	14	6	(1)	—	(550)
= Income (Loss) after taxes	482	26	704	38	61	3	(22)	(1)	104	5	539	29	9	—	—	1,877
- Income (Loss) attributed to minority interests	—	—	(3)	1	—	—	(3)	1	(52)	9	(455)	80	(52)	9	—	(565)
= Income (loss) for the year ended 12-31-02	482	37	701	53	61	5	(25)	(2)	52	4	84	6	(43)	(3)	—	1,312

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Unbundled balance sheet relating to activities in Latin America in 2003

	Millions of Euros									
	Generation	%	Distribution	%	Corporate Activities	%	Other Non-electricity Activities	%	Unallocated Adjustments	Latin America
Assets:										
1. Due from stockholders for uncalled capital	—	0.0	—	0.0	—	0.0	—	0.0	—	—
2. Fixed and other noncurrent assets	5,948	60.1	2,275	23.0	7,343	74.1	87	0.9	(5,750)	9,903
2.1. Intangible assets	75	60.0	48	38.4	1	0.8	1	0.8	—	125
2.2. Utility plant	5,332	62.2	3,152	36.8	20	0.2	74	0.9	(3)	8,575
2.2.1. Electricity plant	6,548	61.6	4,083	38.4	5	0.0	—	0.0	(3)	10,633
2.2.2. Electricity plant in progress	795	81.3	183	18.7	—	0.0	—	0.0	—	978
2.2.3. Other tangible fixed assets	490	53.4	299	32.6	32	3.5	97	10.6	—	918
2.2.4. Advances and other construction work in progress	1	1.6	58	92.1	—	0.0	4	6.3	—	63
2.2.5. Depreciation of electricity plant	(2,382)	63.8	(1,336)	35.8	(16)	0.4	—	0.0	—	(3,734)
2.2.6. Other depreciation	(120)	42.4	(135)	47.7	(1)	0.4	(27)	9.5	—	(283)
2.2.7. Allowances	—	0.0	—	0.0	—	0.0	—	0.0	—	—
2.3. Long-term investments	541	45.0	(925)	(76.9)	7,322	608.6	12	1.0	(5,747)	1,203
2.4. Treasury stock	—	0.0	—	0.0	—	0.0	—	0.0	—	—
3. Goodwill	111	4.4	317	12.4	1,259	49.4	—	0.0	861	2,548
4. Deferred charges	55	36.8	65	43.5	37	24.8	—	0.0	(8)	149
5. Current assets	578	24.2	1,378	57.6	2,796	116.8	149	6.2	(2,508)	2,393
5.1. Inventories	19	25.0	22	28.9	—	0.0	35	46.1	—	76
5.2. Trade receivables	277	25.7	828	77.0	156	14.5	58	5.4	(243)	1,076
5.3. Other current assets	282	22.7	528	42.5	2,640	212.7	56	4.5	(2,265)	1,241
Total assets	6,692	44.6	4,035	26.9	11,435	76.3	236	1.6	(7,405)	14,993
Stockholders' equity and liabilities:										
1. Stockholders' equity	497	21.5	(634)	(27.5)	6,447	279.4	119	5.2	(4,121)	2,308
2. Minority interests	1,591	54.2	1,199	40.9	—	0.0	38	1.3	107	2,935
3. Negative consolidation goodwill	263	1,536.3	9	52.6	1	5.8	—	0.0	(256)	17
4. Deferred revenues	7	5.0	96	68.1	51	36.2	—	0.0	(13)	141
4.1. Capital subsidies	—	0.0	—	0.0	—	0.0	—	0.0	—	—
4.2. Other	7	5.0	96	68.1	51	36.2	—	0.0	(13)	141
5. Provisions for contingencies and expenses	56	7.2	407	52.6	327	42.3	2	0.3	(19)	773
6. Long-term debt	3,492	53.1	1,413	21.5	2,489	37.8	3	0.0	(818)	6,579
7. Current liabilities	786	35.1	1,545	69.0	2,120	94.6	74	3.3	(2,285)	2,240
Total stockholders' equity and liabilities	6,692	44.6	4,035	26.9	11,435	76.3	236	1.6	(7,405)	14,993

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Unbundled cost accounting statement of income relating to activities in Latin America in 2003

	Millions of Euros										
	Generation	%	Distribution	%	Corporate Activities	%	Electricity Activities	%	Unallocated Adjustments	Latin America	
Income assets:											
Net sales and services	1,321	37.3	2,597	73.3	6	0.2	132	3.7	(511)	3,545	
- Sales allocated among activities	—	0.0	—	0.0	—	0.0	—	0.0	—	—	
Other operating revenues	(21)	(26.9)	53	67.9	5	6.4	65	83.3	(24)	78	
= Production value	1,300	35.9	2,650	73.1	11	0.3	197	5.4	(535)	3,623	
Materials used	(194)	16.4	(1,372)	115.9	—	0.0	(46)	3.9	428	(1,184)	
- Procurements allocated among activities	—	0.0	—	0.0	—	0.0	—	0.0	—	—	
External and operating expenses	(292)	43.3	(385)	57.0	(58)	8.6	(59)	8.7	119	(675)	
= Value added by the company	814	46.1	893	50.6	(47)	(2.7)	92	5.2	12	1,764	
- Personnel expenses	(54)	20.8	(150)	57.8	(23)	8.9	(33)	12.7	—	(260)	
= Gross operating income (loss)	760	50.5	743	49.4	(70)	(4.7)	59	3.9	12	1,504	
- Depreciation and amortization expense	(207)	50.1	(203)	49.2	(1)	0.2	(2)	0.5	—	(413)	
- Bad debts and variation in operating allowances	(1)	5.0	(19)	95.0	—	0.0	—	0.0	—	(20)	
= Net operating income (loss)	552	51.5	521	48.6	(71)	(6.6)	57	5.3	12	1,071	
+ Financial revenues	370	54.4	396	58.2	280	41.1	4	0.6	(370)	680	
- Financial expenses	(366)	41.6	(435)	49.4	(445)	50.6	(4)	0.5	370	(880)	
- Depreciation and amortization expense and investment valuation provisions	—	0.0	—	0.0	—	0.0	—	0.0	—	—	
+ Equity in the income/losses of companies accounted for by the equity method	3	16.7	—	0.0	15	83.3	—	0.0	—	18	
- Amortization of consolidation goodwill	(3)	1.8	(21)	12.3	(147)	85.8	—	0.0	—	(171)	
= Ordinary income (loss)	556	77.4	461	64.2	(368)	(51.2)	57	7.9	12	718	
+ Gains on fixed assets and nonoperating revenues	65	24.4	55	20.6	153	57.4	5	1.9	(12)	266	
- Losses on fixed assets and nonoperating expenses	(70)	19.1	(151)	41.3	(143)	39.1	(2)	0.5	—	(366)	
- Variation in intangible asset, utility plant and investment valuation allowances	—	0.0	—	0.0	—	0.0	—	0.0	—	—	
= Income (Loss) before taxes	551	89.0	365	59	(358)	(57.8)	60	9.7	—	618	
- Corporate income tax	(59)	74.7	(76)	96.2	64	(81.1)	(8)	10.1	—	(79)	
= Income (Loss) after taxes	492	91.1	289	53.5	(294)	(54.4)	52	9.6	—	539	
- Income (Loss) attributed to minority interests	(356)	78.2	(87)	19.1	(12)	2.6	—	0.0	—	(455)	
= Income (Loss) for the year attributed to the Parent Company	136	160.8	202	238.8	(306)	(361.7)	52	61.5	—	84	

Endesa, S.A. and Subsidiaries
Notes to 2004 and 2003 Consolidated Financial Statements—(Continued)

Balance sheet by activity and cost accounting statement of income by activity for 2002

	Millions of Euros															
	Generation		Distribution		Retailing		Non-electricity Activities		Activities Carried on Abroad				Unallocated Adjustments	Total		
									Europe		Latin America				Corporate Activities	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%		
Assets:																
1. Due from stockholders for uncalled capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
2. Fixed and other noncurrent assets	9,357	13	8,067	11	416	1	2,574	4	2,854	4	10,837	15	39,943	54	(38,256)	35,792
2.1. Intangible assets and start-up expenses	32	6	144	26	26	5	188	34	41	8	87	16	29	5	(29)	518
2.2. Utility plant	8,316	30	6,729	25	10	—	564	2	2,349	9	9,286	33	154	1	333	27,741
2.2.1. Electricity plant	18,951	41	11,212	25	17	—	470	1	3,805	8	11,583	25	—	—	320	46,358
2.2.2. Electricity plant in progress	557	28	434	22	—	—	90	5	287	15	597	30	—	—	—	1,965
2.2.3. Other tangible fixed assets	1,092	30	383	10	1	—	311	9	880	24	957	26	18	1	(3)	3,639
2.2.4. Advances and other construction work in progress	7	3	22	9	—	—	6	2	—	—	68	27	145	59	—	248
2.2.5. Depreciation of electricity plant	(11,251)	50	(5,046)	23	(8)	—	(136)	1	(2,185)	10	(3,619)	16	—	—	4	(22,241)
2.2.6. Other depreciation	(928)	46	(166)	8	—	—	(176)	9	(425)	21	(300)	15	(9)	1	3	(2,001)
2.2.7. Allowances	(112)	48	(110)	47	—	—	(1)	—	(13)	5	—	—	—	—	9	(227)
2.3. Long-term investments	1,009	2	1,194	3	380	1	1,822	4	464	1	1,464	3	39,678	86	(38,560)	7,451
2.4. Treasury stock	—	—	—	—	—	—	—	—	—	—	—	—	82	100	—	82
3. Consolidation goodwill	—	—	7	—	—	—	446	9	1,720	35	2,705	56	—	—	92	4,970
4. Deferred charges	25	3	155	16	1	—	5	—	0	—	126	13	663	68	(437)	538
5. Current assets	1,261	12	1,207	11	528	5	427	4	382	4	2,565	24	4,228	40	(3,722)	6,876
5.1. Inventories	483	63	24	3	3	1	59	8	71	9	123	16	—	—	—	763
5.2. Trade receivables	695	16	1,154	28	427	10	197	5	285	7	1,004	24	418	10	(315)	3,865
5.3. Other current assets	83	1	29	1	98	2	171	3	26	1	1,438	25	3,810	67	(3,407)	2,248
Total assets	10,643	12	9,436	10	945	1	3,452	4	4,956	6	16,233	18	44,834	49	(42,323)	48,176
Stockholders' equity and liabilities:																
1. Stockholders' equity	4,188	15	1,449	5	29	—	441	2	1,443	5	2,098	7	18,948	66	(20,553)	8,043
2. Minority interests	—	—	—	0	—	—	60	2	1,130	37	1,897	61	—	—	88	3,175
3. Negative consolidation goodwill	27	23	68	59	—	—	3	3	—	—	17	15	—	—	(102)	13
4. Deferred revenues	103	7	1,042	74	1	—	129	9	2	—	120	9	12	1	(53)	1,356
4.1. Capital subsidies	102	11	833	88	—	—	11	1	2	—	—	—	—	—	(21)	927
4.2. Other	1	—	209	45	1	—	118	26	—	—	120	26	12	3	(32)	429
5. Provisions for contingencies and expenses	1,165	28	1,717	41	34	1	186	4	146	3	659	16	290	7	24	4,221
6. Long-term debt	3,333	9	3,259	9	524	1	1,829	5	627	2	8,137	21	20,301	53	(18,224)	19,786
7. Current liabilities	1,827	12	1,901	13	357	2	804	5	1,608	11	3,305	22	5,283	35	(3,503)	11,582
Total stockholders' equity and liabilities	10,643	12	9,436	10	945	1	3,452	4	4,956	6	16,233	18	44,834	49	(42,323)	48,176

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 Consolidated Financial Statements—(Continued)

Cost Accounting Statement of Income, by Activity for 2002

Millions of Euros

	Generation		Distribution		Retailing		Other Non-electricity Activities		Activities Carried on Abroad				Allocations between Activities		Total Consolidated
	%		%		%		%		Europe	%	Latin America	%	Corporate Activities	%	
Revenues and expenses:															
Net sales and services	3,831	22	5,603	33	1,323	8	514	3	1,744	10	3,850	23	211	1	16,739
-Sales allocated among activities	514	101	(6)	(1)	—	—	—	—	—	—	—	—	—	(337)	(508)
Other operating revenues	55	9	127	22	54	9	59	10	16	3	234	40	38	7	(84)
= Production value	4,400	24	5,724	31	1,377	8	573	3	1,760	10	4,084	23	249	1	(929)
Materials used	(1,711)	20	(3,217)	38	(804)	9	(150)	2	(1,248)	15	(1,257)	15	(111)	1	(184)
- Procurements allocated among activities	—	—	(508)	100	—	—	—	—	—	—	—	—	—	508	—
External and operating expenses	(384)	15	(610)	23	(429)	16	(242)	9	(169)	6	(755)	29	(47)	2	611
= Value added of the company	2,305	35	1,389	21	144	2	181	3	343	5	2,072	32	91	2	6
- Personnel expenses	(329)	26	(341)	27	(32)	3	(74)	6	(79)	6	(317)	25	(79)	6	—
= Gross operating income	1,976	38	1,048	20	112	2	107	2	264	5	1,755	33	12	—	6
- Depreciation and amortization expense	(660)	39	(341)	20	(11)	1	(65)	4	(113)	7	(467)	27	(39)	2	(1,696)
- Bad debts and variation in operating allowances	48	(2,400)	(23)	1,150	(3)	150	(3)	150	(1)	50	(20)	1,000	—	—	(2)
= Net operating income (loss)	1,364	38	684	19	98	3	39	1	150	4	1,268	36	(27)	(1)	3,582
+ Financial revenues	35	3	7	1	2	—	30	2	3	—	492	35	834	59	651
- Financial expenses	(150)	5	(220)	7	(21)	1	(94)	3	(63)	2	(1,521)	50	(953)	32	(752)
- Depreciation and amortization expense and investment valuation provisions	—	—	—	—	—	—	(9)	100	—	—	—	—	—	—	(9)
+ Equity in the income/losses of companies accounted for by the equity method	—	—	—	—	—	—	(192)	207	17	(18)	7	(8)	75	(81)	(93)
- Amortization of consolidation goodwill	—	—	1	—	—	—	(41)	11	(92)	26	(215)	61	(8)	2	(355)
= Ordinary income (loss)	1,249	83	472	32	79	5	(267)	(18)	15	1	31	2	(79)	(5)	1,500
+ Gains on fixed assets and nonoperating revenues	1,264	72	280	16	8	—	107	6	9	1	118	7	(41)	(2)	1,745
- Losses on fixed assets and nonoperating expenses	(176)	12	(391)	26	(33)	2	(377)	25	(32)	2	(573)	37	54	(4)	(1,528)
- Variation in intangible asset, utility plant and investment valuation allowances	(5)	3	(67)	46	—	—	(1)	1	1	(1)	—	—	(74)	51	(146)
= Income (Loss) before taxes	2,332	148	294	19	54	3	(538)	(34)	(7)	—	(424)	(27)	(140)	(9)	1,571
- Corporate income tax	(250)	57	204	(47)	(16)	4	76	(17)	64	(15)	(39)	9	(476)	109	(437)
= Income (Loss) after taxes	2,082	184	498	44	38	3	(462)	(41)	57	5	(463)	(41)	(616)	(54)	1,134
- Income (Loss) attributed to minority interests	—	—	—	—	—	—	(7)	(5)	(36)	(27)	182	134	(3)	(2)	136
= INCOME (LOSS) FOR THE YEAR ENDED 12/31/02	2,082	164	498	39	38	3	(469)	(37)	21	2	(281)	(22)	(619)	(49)	1,270

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 Consolidated Financial Statements—(Continued)

Unbundled balance sheet and cost accounting statement of income relating to activities carried on in Latin America in 2002

	Millions of Euros									
	Generation	%	Distribution	%	Corporate Activities	%	Other Non-electricity Activities	%	Unallocated Adjustments	Latin America
Assets:										
1. Due from stockholders for uncalled capital	—	—	—	—	—	—	—	—	—	—
2. Fixed and other noncurrent assets	6,282	44	2,857	20	4,995	35	87	1	(3,384)	10,837
2.1. Intangible assets	23	27	62	71	2	2	—	—	—	87
2.2. Utility plant	5,846	63	3,348	36	20	—	74	1	(2)	9,286
2.2.1. Technical electricity installations	7,462	64	4,117	36	4	—	—	—	—	11,583
2.2.2. Technical electricity installations in progress	335	56	262	44	—	—	—	—	—	597
2.2.3. Other tangible fixed assets	527	55	300	32	32	3	100	10	(2)	957
2.2.4. Advances and other construction work in progress	1	1	67	99	—	—	—	—	—	68
2.2.5. Depreciation of technical electricity installations	(2,333)	65	(1,271)	35	(15)	—	—	—	—	(3,619)
2.2.6. Other depreciation	(146)	49	(127)	42	(1)	—	(26)	9	—	(300)
2.2.7. Provisions	—	—	—	—	—	—	—	—	—	—
2.3. Long-term financial investments	413	9	(553)	(11)	4,973	102	13	—	(3,382)	1,464
2.4. Treasury stock	—	—	—	—	—	—	—	—	—	—
3. Goodwill	110	4	326	11	2,551	85	—	—	(282)	2,705
4. Deferred charges	40	31	74	59	12	10	—	—	—	126
5. Current assets	858	25	1,346	39	1,081	32	135	4	(855)	2,565
5.1. Inventories	41	33	37	30	—	—	45	37	—	123
5.2. Customer receivables	228	20	803	70	51	4	65	6	(143)	1,004
5.3. Other current assets	589	27	506	24	1,030	48	25	1	(712)	1,438
Total assets	7,290	35	4,603	22	8,639	42	222	1	(4,521)	16,233
Stockholders' equity and liabilities:										
1. Stockholders' equity	320	10	(466)	(14)	3,291	101	95	3	(1,142)	2,098
2. Minority interests	1,350	71	1,272	67	(762)	(40)	36	2	1	1,897
3. Negative goodwill	293	97	9	3	1	—	—	—	(286)	17
4. Deferred revenues	27	20	71	51	40	29	—	—	(18)	120
4.1. Capital subsidies	—	—	—	—	—	—	—	—	—	—
4.2. Other	27	20	71	51	40	29	—	—	(18)	120
5. Provisions for contingencies and expenses	43	6	319	47	321	47	2	—	(26)	659
6. Long-term debt	3,656	36	1,622	16	4,978	48	30	—	(2,149)	8,137
7. Current liabilities	1,601	39	1,776	42	770	18	59	1	(901)	3,305
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	7,290	35	4,603	22	8,639	42	222	1	(4,521)	16,233

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 Consolidated Financial Statements—(Continued)

Unbundled cost accounting statement of income relating to activities in Latin America in 2002

	Millions of Euros									
	Generation	%	Distribution	%	Corporate Activities	%	Other Non-electricity Activities	%	Unallocated Adjustments	Latin America
Income statements:										
Net sales and services	1,371	31	2,815	65	8	—	159	4	(503)	3,850
- Sales allocated among activities	—	—	—	—	—	—	—	—	—	—
Other operating revenues	35	12	168	59	6	2	76	27	(51)	234
= Production value	1,406	31	2,983	64	14	—	235	5	(554)	4,084
Materials used	(162)	10	(1,446)	85	—	—	(80)	5	431	(1,257)
- Procurements allocated among activities	—	—	—	—	—	—	—	—	—	—
External and operating expenses	(315)	36	(427)	49	(58)	7	(78)	8	123	(755)
= Value added of the company	929	45	1,110	54	(44)	(2)	77	3	—	2,072
- Personnel expenses	(66)	21	(184)	58	(33)	10	(34)	11	—	(317)
= Gross operating income (loss)	863	49	926	53	(77)	(4)	43	2	—	1,755
- Period depreciation and amortization	(232)	50	(231)	50	(2)	—	(2)	—	—	(467)
- Bad debts and variation in operating provisions	1	(5)	(21)	105	—	—	—	—	—	(20)
= Net operating income (loss)	632	50	674	53	(79)	(6)	41	3	—	1,268
+ Financial revenues	194	19	445	44	376	37	2	—	(525)	492
- Financial expenses	(887)	44	(841)	41	(311)	15	(7)	—	525	(1,521)
- Period depreciation and amortization and financial provisions	—	—	—	—	—	—	—	—	—	—
+ Equity in the income/losses of companies carried by the equity method	67	965	(60)	(865)	—	—	—	—	—	7
- Amortization of goodwill in consolidation	(9)	4	(31)	15	(175)	81	—	—	—	(215)
= Ordinary income (loss)	(3)	(10)	187	602	(189)	(608)	36	116	—	31
+ Gains on fixed assets and nonoperating revenues	56	41	43	31	36	26	3	2	(20)	118
- Losses on fixed assets and nonoperating expenses	(136)	23	(135)	23	(294)	50	(28)	4	20	(573)
- Variation in provisions for intangible assets, utility plant and control portfolio	—	—	—	—	—	—	—	—	—	—
= Income (Loss) before taxes	(83)	20	95	(22)	(447)	105	11	(3)	—	(424)
- Corporate income tax	(167)	423	(144)	365	277	(701)	(5)	13	—	(39)
= Income after taxes	(250)	54	(49)	11	(170)	37	6	(2)	—	(463)
- Income (Loss) attributed to minority interests	126	69	35	19	21	12	—	—	—	182
= Income (Loss) for the year attributed to the Controlling Company	(124)	44	(14)	5	(149)	53	6	(2)	—	(281)

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

23. PROCESS OF APPLYING INTERNATIONAL ACCOUNTING STANDARDS

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council dated July 19, 2002, from 2005 the Group is obliged to present its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) adopted by the European Union.

Under IFRS 1, First-Time Adoption of International Financial Reporting Standards, the Group's 2005 consolidated financial statements prepared in accordance with IFRSs should include, for comparison purposes, the figures for 2004, prepared on a basis consistent with that used to calculate the figures for 2005. Accordingly, an opening balance sheet must be prepared in accordance with IFRS as of January 1, 2004, which will be the date of transition to these Standards, and the 2004 consolidated financial statements included in these financial statements must be converted to the IFRSs in force as of December 31, 2005.

In order to meet this obligation, ENDESA has established a plan for adapting to IFRSs which includes the following phases:

1. Analysis of the differences between the methods provided for in the National Chart of Accounts in force in Spain and IFRSs.
2. Selection of the criteria to be applied in cases in which possible alternative treatments exist.
3. Determination and implementation of the procedural and operating changes required to provide the information required to convert each company's financial statements to IFRSs.
4. Organization of the conversion, reporting and consolidation process.
5. Obtainment of consolidated financial statements in accordance with IFRSs.

The adaptation plan is being implemented according to schedule and the process is close to completion.

24. EVENTS SUBSEQUENT TO YEAR-END

In February 2005 the Spanish government initiated the proceedings to introduce a Royal Decree Law which aims, inter alia, to amend the regulation of certain aspects of the functioning of the electricity system, by taking the following steps:

- Introduce the legislative changes required for the start-up of the Iberian Electricity Market.
- Limit to a maximum of 1% the percentage of direct or indirect ownership by an individual or legal entity in the capital stock of Red Eléctrica de España, S.A., with the exception of Sociedad Estatal de Participaciones Industriales. Stockholders with an ownership interest of over 1% in Red Eléctrica de España, S.A. as of the date on which this regulation comes into force must meet this requirement by January 1, 2008.

As of December 31, 2004, ENDESA, S.A. owned a 3% holding in Red Eléctrica de España, S.A.

- Reform the system for settling the costs of transition to competition, regulating the allocation of the shortfall in revenues from regulated activities in the event of such a shortfall. The proposal to amend the system for settling the costs of transition to competition does not in any case predetermine the current functioning, although it does delay the final settlement of the 2004 CTCs until January 1, 2006, by which time the government will have studied the conclusions of the white paper being prepared on the electricity industry production market.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

- The amounts required to record the portion of the provision to finance the costs relating to the management of radioactive waste and fuel consumed at the nuclear power plants and to their decommissioning and shut-down attributable to the operation of these plants and accruing subsequent to March 31, 2005, will be financed by the owners of the nuclear power plants during their operation. For this purpose, ENRESA will bill a specific unitary value to the owner of each plant from April 1, 2005, based on the KWh generated by each plant.

In February 2005 ASM BRESCIA exercised its purchase option on a 5.33% holding in ENDESA Italia and, accordingly, the Group sold this ownership interest for €159 million, giving rise to a gain of €24 million. As a result of this sale, ENDESA now owns 80% of the shares of ENDESA Italia.

In January 2005 a building in Palma de Mallorca was sold for €73 million, giving rise to a gain of €65 million.

In February 2005 the Group presented a nonbinding offer to acquire the rights and obligations of EDF at certain companies which might, if appropriate, give rise to the acquisition of a majority holding in the Italian company EDISON. At the date of preparation of these consolidated financial statements, the Group had not taken any decision as to whether to ultimately present a binding offer. Finally, in May 2005, EDF decided to remain in Italy, thus declining the offer for Edison made by Endesa in conjunction with ASM Brescia.

In 2005, Endesa and the other principal shareholders of Auna decided to begin an orderly process whereby Endesa and they may sell Auna.

In 2005, Endesa has started the process of incorporating a limited liability holding company registered in Brazil, called Endesa Brasil, S.A., to which it will contribute the shares it holds directly in subsidiaries domiciled in this country, as well as the Brazilian shareholdings of Enersis, S.A., which in turn is controlled by Endesa Internacional.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

25. CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Following are the consolidated statements of changes in financial position of ENDESA, S.A. and Subsidiaries for the years ended December 31, 2004 and 2003 (millions of Euros).

FUNDS WERE USED FOR	Millions of Euros		FUNDS WERE OBTAINED FROM	Millions of Euros	
	2003	2004		2003	2004
Start-up and debt arrangement expenses	171	24	Operations:		
Intangible asset additions	84	99	- Attributed to the Parent Company	3,250	3,418
Utility plant additions:			- Attributed to minority interests	565	454
- Cost	2,050	2,385	Contributions of minority interests and of the Parent Company's stockholders	2,153	
- Capitalized expenses of in-house work on fixed assets and capitalized interest	132	180	Capital subsidies	295	258
Long-term investment additions	197	664	Long-term debt drawdowns:	6,585	1,895
Acquisition of Parent Company shares	70	154	Disposal of fixed assets	2,231	374
Dividends of the Parent Company	723	752	Disposal of Parent Company shares	181	198
Dividends of Group companies attributed to minority interests and capital reductions	143	196	Funds obtained from the disposal of consolidated companies	178	51
Renegotiation of short-term investments	261		Early retirement or transfer to short term of long-term investments	711	417
Acquisition of additional holdings in consolidated companies	19	121	TOTAL FUNDS OBTAINED	16,149	7,065
Long-term debt:			FUNDS USED IN EXCESS OF FUNDS OBTAINED (DECREASE IN WORKING CAPITAL)		
- Repayment of long-term debt	6,040	469			
- Transfers to short term	2,832	1,299			
Provisions for contingencies and expenses	414	454			
TOTAL FUNDS USED	13,136	6,797			
FUNDS OBTAINED IN EXCESS OF FUNDS USED (INCREASE IN WORKING CAPITAL)	3,013	268			
VARIATION IN WORKING CAPITAL					
			2003	2004	
			Increase	Decrease	Increase
			Decrease	Increase	Decrease
Due from stockholders for capital calls			—	69	52
Inventories			328	—	206
Accounts receivable			2,622	—	119
Accounts payable			163	—	190
Short-term investments			—	19	—
Cash			—	12	—
Prepaid expenses			—	—	8
TOTAL			3,113	100	466
Variation in working capital			3,013		268

26. DIFFERENCES BETWEEN SPANISH AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As discussed in Note 3-a, the accompanying financial statements were prepared in accordance with generally accepted accounting principles in Spain ("Spanish GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("U.S. GAAP"). These differences are discussed in the following paragraphs.

For a better presentation purposes, the company has registered some reclassifications in the 2003 and 2002 adjustments figures in order to reflect the same concepts as included in 2004. The effect of these reclassifications has no effect on the reconciliation figures of Stockholders' equity and Net income.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Reconciliation of Net income and stockholders' equity from Spanish GAAP to U.S. GAAP

The following table ("Reconciliation Table") is a summary of the adjustments to consolidated net income and to consolidated stockholders' equity that would have been required if U.S. GAAP had been applied instead of Spanish GAAP:

Item #	Net Income			Shareholders' Equity	
	For the years ended December 31,			At December 31,	
	Millions of Euros			Millions of Euros	
	2002	2003	2004	2003	2004
Amounts per accompanying Financial statements:					
Increases (decreases) due to					
Net sales					
Revenue recognition (SAB 101)					
– Effect in period	15	(29)	42	76	(180) (104)
Operating Income/Expenses					
Effect of discontinuance of SFAS No. 71	1	2	1	1	(33) (32)
Adjustments to cost of fixed assets:					
– Elimination of legal restatements of fixed assets	2.1				(3,014) (3,009)
Cost					
Amortization for the period / Accumulated depreciation		357	219	148	1,513 1,656
– Other adjustments to the cost of property, plant and equipment	2.2				
Cost		(102)	38	(7)	(52) (60)
Amortization for the period / Accumulated depreciation		5	2	1	9 9
Equity method	3	69	(96)	(75)	(144) (217)
Pension plans	4.1/4.2	(25)	(1)	(14)	56 42
Special termination benefits	4.3	(333)	(214)	(164)	652 487
Goodwill					
– Goodwill arising under U.S. GAAP	5.1	(12)	—	—	605 634
– Reversal of goodwill amortization	5.2				
Fully consolidated		215	248	333	514 874
Investments by under equity method		38	37	32	71 76
Negative goodwill	6	(1)	—	1	7 8
Restructuring of the mining business	10	2	(1)	4	40 45
Stock issuance expenses and start up cost					
– Stock issuance expenses	12.1	5	1	—	— —
– Start up cost	12.2	24	9	7	(18) (10)
Research and development	13	(15)	2	25	(31) (6)
Translation of financial statements of ENERSIS' subsidiaries					
Cost	16				537 554
Amortization for the period / Accumulated depreciation		(30)	(19)	(19)	(82) (100)
Asset retirement obligation (SFAS No. 143)					
Cost	21				— 128
Accumulated depreciation					— (128)
Sale and leaseback involving real estate	22		(127)	14	(127) (113)
Financial Income/Expenses					
Foreign currency gains and losses	11	95	8	(85)	112 27
Capitalization of interest					
Cost	14	28	34	74	140 214
Accumulated depreciation		(3)	(10)	(7)	(23) (30)
Derivative instruments and hedging activities (SFAS No. 133)					
– Effect in period	18	(155)	358	26	104 (50)
Asset retirement obligation (SFAS No. 143)					
Provision	21				— (185)
Net income for the period			3	25	3 —
Extinguishment of debt	23		(23)	—	— —
Non operating Income/Expenses					
Accounting for certain investments in debt and equity securities (SFAS No. 115)	8	(115)	(14)	146	144 193
Treasury stock	9	22	(25)	(16)	(17) —
Loss contingencies	17	235	(54)	(181)	181 —
Currency translation adjustment	20		(16)	—	— —
Tax effect of the above adjustments	7	(74)	47	(39)	171 273
Effect of minority interest		72	(204)	(109)	(392) (472)

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

	Item #	Net Income			Shareholders' Equity	
		For the years ended December 31,			At December 31,	
		Millions of Euros			Millions of Euros	
		2002	2003	2004	2003	2004
Amounts in accordance with U.S. GAAP before cumulative effect of a change in accounting principle		1,545	1,557	1,576	9,547	10,181
Asset retirement obligation (SFAS No. 143)	21	—	—	—	128	—
Cost		—	—	—	(91)	—
Accumulated depreciation		—	—	—	(250)	—
Provision		—	(213)	—	—	—
Net income for the period		—	75	—	75	—
Tax effect of the above adjustments	7	—	—	—	—	—
Amounts under U.S. GAAP		1,545	1,419	1,576	9,409	10,181
Basic and Diluted Earnings per share before cumulative effect of a change in accounting principle		1.46	1.47	1.49		
Cumulative effect of a change in accounting principle per share		—	(0.13)	—		
Basic and Diluted Earnings per share in accordance with U.S. GAAP		1.46	1.34	1.49		
Weighted average of shares (thousands)		1,058,752	1,058,752	1,058,752		

The differences included in the Reconciliation Table above are explained in the following items:

	Millions of Euros		
	2002	2003	2004
Statements of changes in shareholder's equity			
U.S. GAAP shareholders' equity at the beginning of the year	9,052	8,594	9,409
Movements during the year:			
Net income for the year	1,545	1,419	1,576
Interim dividend	(280)	(280)	(288)
Supplementary dividend	(443)	(443)	(464)
Accumulated other comprehensive income (loss):			
Currency Translation Adjustment	(1,423)	193	64
Derivative instruments, net of tax	139	(304)	(107)
Available-for-sale securities, net of tax effect	(69)	118	(63)
Treasury stock	73	112	44
Other	—	—	10
U.S. GAAP shareholders' equity at the end of the year	8,594	9,409	10,181

1. Discontinuance of SFAS No. 71

As a result of the facts explained in notes 5 and 6, the Group began analyzing the continued applicability of Statement of Financial Accounting Standard No. 71 (SFAS No. 71) "Accounting for the effects of certain types of regulation" for some of its operations in Spain and, the period in which discontinuation should occur. The analysis resulted in a decision to discontinue applying SFAS No. 71 as of December 31, 1996 for the most part of our operations, which have been considered not to be regulated. The primary reasons were:

- i. The transition period began January 1, 1998. The formal legislation was passed in 1997.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

- ii. The recovery rates have been reduced over the years.
- iii. The transition costs have been established as a maximum allowed amount to recover.

The impact of discontinuing SFAS No. 71 was to write off those related regulatory assets recorded in 1996 that were still recorded as an asset under Spanish GAAP.

2. Adjustments to the cost of property and equipment

2.1. Elimination of legal restatements of fixed assets

As described in Note 4-b, the cost and accumulated depreciation of the utility plants in Spain of Endesa Group were revalued following Spanish regulations. Under U.S. GAAP, such revaluations are not acceptable. The adjustments shown in the reconciliation include a reduction in stockholders' equity to eliminate these revaluations and an increase in income of each year that results from the recalculation of the depreciation expense on a historical cost basis.

2.2. Other adjustments to the cost of property, plant and equipment

- i. Enersis Group capitalizes as part of the carrying amount of its property, plant and equipment, certain costs such as general and administrative expenses and foreign exchange losses which are acceptable under Spanish GAAP but not under U.S. GAAP. Although under U.S. GAAP this effect should have been eliminated, Endesa Group management has concluded that the fair value of the property, plant and equipment at the acquisition date (year 1999) of Enersis was similar to the carrying value under local GAAP considering such capitalized costs. Accordingly, no adjustment was considered in 1999 under U.S. GAAP, since that difference was considered part of the purchase price allocation. Since such acquisition, the capitalization of these costs is being removed under U.S. GAAP.
- ii. Additionally, it is included under this caption certain costs, such as such as fees paid to outside advisors, related to the acquisition of Edesur, S.A., at the time of the acquisitions by Distrilec Inversora, S.A. in previous years, which under U.S. GAAP these costs were considered as part of the purchase price and have been substantially allocated to property and equipment that are being amortized considering the respective useful life of each asset, which on average is 17 years. And under Spanish GAAP were amortized over a five-year period. It is adjusted the difference in both amortization periods.

3. Equity method

Under Spanish GAAP significant influence is presumed to exist where the investor has more than a 3% interest in listed companies. Under U.S. GAAP, whether an investor has the ability to exercise significant influence over an investee requires a careful evaluation of the facts of each situation. Among the factors that are indicative of the ability to exercise significant influence are:

- A significant direct or indirect holding of the outstanding voting securities. Absent evidence to the contrary, an investment of 20% or more of the voting stock of a corporate investee is presumptive evidence that the investor has the ability to exercise significant influence;
- Representation on the board of directors;
- Participation in the policy-making processes;

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

- Significant intercompany transactions; and
- Investee dependence on the investor.

Endesa Group has recorded certain investments under the equity method following Spanish GAAP. However, for U.S. GAAP purposes these investments were classified as available-for-sale securities, as defined by Statement of Financial Accounting Standard No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (SFAS No. 115), due to the lack of the characteristics above. Under U.S. GAAP unrealized holding gains and losses in available-for-sale securities are reflected as a separate component of stockholders’ equity until realized (Other Comprehensive Income).

As discussed above, Endesa Group accounted for the following investments under the equity method for Spanish GAAP purposes and as available-for-sale securities for U.S. GAAP purposes.

- i. 3.0% interest in R.E.E. (Red Eléctrica de España, S.A.) during 2004. The Company sold a 7% stake in this investment in 2003.
- ii. 11.64% interest in Sociedad General de Aguas de Barcelona, S.A. (AGBAR, S.A.)—this investment that has been sold as of May 5, 2004
- iii. 3,02% interest in Repsol-YPF up to its sale during 2003.

The table below summarizes Endesa Group’s equity method investments under U.S. GAAP:

Investee	Millions of Euros					
	2004			2003		
	Equity Interest	Goodwill	Carrying Amount	Equity Interest	Goodwill	Carrying Amount
Auna	763	581	1,344	674	406	1,080
Snet	—	—	—	179	275	454
Smartcom	322	—	322	104	—	104
Inversiones Gas Atacama						
Holding	111	—	111	110	—	110
Tejo	68	—	68	61	—	61
NQF Gas	21	—	21	21	—	21
Inversiones Eléctrica Quillota . . .	17	—	17	14	—	14
Inversiones Electrogas	10	—	10	11	—	11
Yacylec	10	—	10	10	—	10
Altek	27	—	27	—	—	—
Sidek	27	—	27	—	—	—
Elcogás	20	—	20	—	—	—
Others	128	15	143	82	—	82
Total	<u>1,524</u>	<u>596</u>	<u>2,120</u>	<u>1,266</u>	<u>681</u>	<u>1,947</u>

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

We have calculated the significance test under Rule 3-09 of Regulation S-X—“Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons” for all our significant investments accounted for under the equity method. For the year ended December 31, 2002 such calculations determined that pretax income for Auna were between 10% and 20% of our consolidated income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle and therefore, summarized financial information of our equity method investment in Auna in presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current Assets	803	873	938
Noncurrent Assets	<u>7,902</u>	<u>7,830</u>	<u>8,272</u>
Total Assets	<u>8,705</u>	<u>8,703</u>	<u>9,210</u>
Current Liabilities	2,277	2,026	3,455
Noncurrent Liabilities	<u>4,081</u>	<u>4,411</u>	<u>3,434</u>
Total Liabilities	<u>6,358</u>	<u>6,437</u>	<u>6,889</u>
Minority interests	17	13	12
Equity	<u>2,330</u>	<u>2,253</u>	<u>2,309</u>
Total	<u>8,705</u>	<u>8,703</u>	<u>9,210</u>
Net sales	4,217	3,793	3,139
Gross profit	2,769	2,466	2,022
Income or loss from continuing operations before extraordinary items and cumulative effect of a change in accounting principle	21	(103)	(837)
Net income or loss	30	(55)	(560)

4. Pension plans, social benefits and special termination benefits

4.1. Pension plans and other post-retirement benefits in Spain

Spanish Law Environment for Pension Plans

The EEC 80/987 directive, which deals with protection of employees’ rights in case of employers’ insolvency, obligates all of its Member States to adopt the necessary measures to protect current and retired employees’ interests. To implement this directive, the Spanish parliament approved in 1995, 1997 and 1998 certain laws that deal with protection of employees’ pension rights. Following this legislation, all the pension benefits related to employees and other beneficiaries were to be funded through pension plans or insurance contracts. Except for certain exceptions detailed below, under no circumstances would it be acceptable to fund those benefits through either internal funds or similar instruments that represent the maintenance of the employer’s entitlement over the contributed resources. The transfer should not result in any modification of the employees’ pension rights, unless both the employer and employees agree to such modifications. The due date for externalization was November 16, 2002.

With this legislation, the Spanish government pursued two objectives:

- To protect the employees’ pension rights in case of the employer’s insolvency.
- To free employers from the need to manage the resources regarding these obligations and transfer these obligations to financial and insurance entities.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The law establishes some transition period for certain specific situations. In these cases, each company will have to set up a plan to balance its obligations that set the transfer of funds, the past service costs and the pension benefits. The funds contributed would comprise the balances recorded in the balance sheet unless a different amounts of funds had been approved. If so, the difference should have been accounted for before transferring. When the plan included retired employees or other beneficiaries' benefits, the funds should not be assigned to the current employees before fully covering the accrued benefits obligations for these individuals. The maximum period to complete the transfer was 10 years. The maximum time to cover the deficit obligation should have been 15 years, with a minimum contribution of 5% each year. After half of the estimated period of the transfer, at least 50% of the deficit should have been contributed.

With reference to insurance contracts, the law permitted the premium to be financed over a 10-year period.

After the transition period, no further contributions to the plan or the insurance contract regarding projected benefit obligations would be required, except for changes in the actuarial assumptions.

Accounting method under Spanish GAAP

Since 1990, accounting practice has followed the accrual basis. However, Spanish GAAP permitted the shortfalls in 1989 between the pension commitments and risks incurred, on one hand, and those insured and covered for accounting purposes, on the other hand, to be accrued over the following periods (starting from 1990):

- For retired employees—over seven years; and
- For serving employees—over fifteen years.

These provisions could be charged to retained earnings.

The law permits companies to defer and charge into income over 15 years (pension plans) or 10 years (insurance contracts) any deficit arising in the externalization due to a change in actuarial assumptions. The deficit corresponding to the 1989 shortfalls should continue being recorded according to the policy stated in the previous paragraph. Any deficits that arose in the externalization could have been recorded as deferred charges under Spanish GAAP.

Accounting method under U.S. GAAP

SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" gives the guidance for accounting settlements, curtailments and annuity contracts. For purposes of this Statement, a settlement is defined as "a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a pension benefit obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include (a) making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits and (b) purchasing nonparticipating annuity contracts to cover vested benefits".

In order to consider if the Spanish law was, in substance, a settlement of the benefits, Endesa has analyzed each respective plan in order to evaluate if it meets these three requirements.

Endesa's Pension Plans

As indicated in Note 4.i to our consolidated financial statements, Endesa has both Defined Contribution Pension Plans schemes and some limited cases of Defined Benefit Pension Plans Schemes. All pension plans are not self-funded by Endesa. As explained above, Endesa has complied with the applicable law and has externalized all of its Pension Plans Obligations.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

For those Pension Plans in respect of which Endesa has not fully settled our pension plan obligation, we concluded that no settlement had occurred and that such externalization represented only a contribution of assets to a pension plan and not a settlement.

For those cases where we have been relieved from the primary obligation (i.e. it converts a defined benefit plan to a defined contribution plan, etc.) then we have recognized all effects of a settlement in accordance with SFAS 88.

The main differences described above between Spanish GAAP and U.S. GAAP primarily relates to a different criteria relating to unrecognized/recognized net actuarial gain or loss. The following table presents the differences related the Spanish pension plans:

	Year end Balances as of December 31,		Income/(Expenses) for the period ended December 31,		
	2003	2004	2002	2003	2004
Spanish GAAP Unrecognized/ recognized net actuarial gain or loss	90	78	(58)	(45)	(3)
Change 1999, Actuarial Assumptions	33	29	(10)	(4)	(4)
Change 1991-95, Actuarial Assumptions	—	—	(28)	—	—
Change 2002, Actuarial gains recorded in earnings	<u>39</u>	<u>36</u>	<u>42</u>	<u>(3)</u>	<u>(3)</u>
Adjustment under US GAAP	<u>72</u>	<u>65</u>	<u>4</u>	<u>(7)</u>	<u>(7)</u>
U.S. GAAP unrecognized/recognized net actuarial gain or loss	<u>162</u>	<u>143</u>	<u>(54)</u>	<u>(52)</u>	<u>(10)</u>

Except for the paragraphs mentioned above, the accounting policy of the Group under Spanish GAAP for pension and other postretirement benefit plans is similar with SFAS No. 87 and SFAS No. 106. The following additional disclosures have been prepared according to the requirements established by Statement of Financial Accounting Standards No. 132 (“SFAS No. 132(R)”).

Pensions

ENDESA’s pension commitments are organized around pension plans as well as on insurance agreements. The majority of staff is covered by defined contribution pension plans or fully-insured defined benefit pension plans, of which ENDESA has integrally passed on the biometric and financial risks to the Insurance Company. As for retired employees, most commitments are covered with insurance policies.

In consequence, the following charts show exclusively the commitments for defined benefit pensions in which the Group assumes actuarial deviation risks, including Fecsa-Enher I, Fecsa-Enher II and Hidroeléctrica de L’Empordá pension plans, and book reserves for changes in assumptions on pension and life insurance commitments.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The following is a reconciliation of beginning and ending balances of the benefit obligation:

<u>Change in benefit obligation</u>	<u>Millions of euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Benefit obligation at beginning of year	993	863	928
Service cost	21	24	18
Interest cost	41	35	37
Plan participants' contributions	—	—	—
Amendments, Settlements	(184)	(1)	(23)
Actuarial (gain)/loss	16	34	31
Acquisition	—	—	—
Benefits paid	(24)	(27)	(38)
Benefit obligation at end of year	863	928	953

“Settlements” contains the commitments outsourced by ENDESA. Specifically, ENDESA has outsourced obligations for active employees of FECSA, HECSA, TERBESA and GESA by purchasing whole life insurance policies. In former years ENDESA has also acknowledged past service liabilities through the corresponding rebalancing plans in accordance with the Royal Decree 1988/1999 of October 15th.

Under the new regulation, it is no longer allowed to have internal retirement, death and disability plans, and these commitments have to be externalized. Consequently, past service liabilities have to be defined for active members when the qualified pension plan becomes operational. For the purposes of applying the transitional arrangements of the new regulations, the past service reserve corresponding to those benefits in quantified in line with the specifications of the Royal Decree, the part of the past service reserve that is backed by a pension liability must be transferred to the fund over no more than ten years and the deficit arising from the excess of the past service reserve over the pension liability must be funded over no more than fifteen years according to the corresponding rebalancing plan (“PdR”).

The components of net periodic benefit cost under Spanish GAAP for 2002, 2003 and 2004 are as follows:

<u>Components of net periodic benefit cost</u>	<u>Millions of euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net periodic defined benefit pension cost	62	59	55
<i>Service cost</i>	21	24	18
<i>Interest cost</i>	41	35	37
Net periodic defined contribution pension cost and similar obligations	33	34	39
Expected return on plan assets	(5)	(9)	(15)
Amortization of prior service cost	—	—	—
Recognized net actuarial loss	65	53	24
Net periodic benefit cost	154	137	103

For 2004, the amount transferred to pension plans according to the specifications laid out in the corresponding rebalancing plans was €148 million. The epigraph “Recognized actuarial loss” includes the extra allowances for actuarial deviations.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

It includes next the value of the assets corresponding to defined benefit commitments:

<u>Change in plan assets</u>	<u>Millions of euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Fair value of plan assets at beginning of year	784	724	833
Pension plan's assets	134	222	364
"PdR" Debt	650	502	469
Actual return on plan assets	(19)	19	20
Acquisition	—	—	—
Employer contribution	118	138	132
Plan participants' contributions	—	—	—
Benefits paid	(13)	(15)	(30)
"PdR" Debt Variation	(147)	(33)	(93)
Fair value of plan assets at end of year	724	833	862
Pension plan's assets	222	364	486
"PdR" Debt	502	469	376

The detail of the funded status and the amounts recognized and not recognized in the consolidated balance sheet are as follows:

<u>Funded Status</u>	<u>Million of euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Funded status	(139)	(95)	(91)
Unrecognized net actuarial loss	83	55	57
Unrecognized prior service cost	—	—	—
Prepaid / (accrued) benefit cost	(56)	(40)	(34)

The following actuarial assumptions were used in 2002, 2003 and 2004:

<u>Weighted-average assumptions as of December 31,</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Discount rate	4.0%	4.0%	4.0%
Expected return on plan assets	4.0%	4.0%	4.0%
Rate of compensation increase	2.5%	2.5%	2.3%

The expected long-term rate of return on assets is 4.00% and it has been calculated taking into account the historical returns and the current assets structure. A selectivity and timing analysis has been carried out to forecast price movements of common stocks in general relative to fixed income securities. A 4.80% rate of return is expected for 2005.

Defined benefit pension plan assets allocations at December 31, 2004, by assets category are as follows:

<u>Asset Category</u>	<u>Plan Assets</u>
Equity Securities	39.18%
Debt Securities	60.82%
Total	<u>100.0%</u>

The equity securities include ENDESA common stock in the amounts of 228 thousands of euros (0.05% of total plan assets). The target asset allocations for coming years are: 40% in stocks and 60% in bonds.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

ENDESA expects to contribute €59 million to its pension plan and the following benefits payments are expected to be paid (millions of euros):

<u>Year</u>	<u>Millions of euros</u> <u>Pension Benefits</u>
2005	21
2006	25
2007	29
2008	34
2009	38
2010-2014	234

Other Post-retirement Benefit Plans

In addition, ENDESA has undertaken the commitment to the finance power consumption by both active and retired employees, so the company may accrue the estimated cost of retiree benefits payments, other than pensions, during the employee's active service periods.

The following is a reconciliation of beginning and ending balances of the benefit obligation:

<u>Change in benefit obligation</u>	<u>Millions of Euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Benefit obligation at beginning of year	175	200	194
Service cost	1	0	0
Interest cost	7	7	7
Plan participants' contributions	0	0	0
Amendments, Settlements	(5)	0	0
Actuarial (gain)/loss	31	(6)	16
Acquisition	0	0	0
Benefits paid	(9)	(7)	(13)
Benefit obligation at end of year	200	194	204

The components of net periodic benefit cost for 2002, 2003, and 2004 are as follows:

<u>Components of net periodic benefit cost</u>	<u>Millions of Euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Service cost	1	0	0
Interest cost	7	7	7
Expected return on plan assets	0	0	0
Amortization of prior service cost	0	0	0
Recognized net actuarial loss	31	(6)	16
Net periodic benefit cost	39	1	23

As the obligation is covered by a pension liability, the detail of the funded status of the plans and the amounts recognized and not recognized in the statement of financial position are as follows:

<u>Funded Status</u>	<u>Millions of Euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Funded status	(200)	(194)	(204)
Unrecognized net actuarial loss	0	0	0
Unrecognized prior service cost	0	0	0
Prepaid / (accrued) benefit cost	(200)	(194)	(204)

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The following actuarial assumptions were used in 2002, 2003 and 2004:

<u>Weighted-average assumptions as of December 31,</u>	<u>Millions of Euros</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Discount rate	4.0%	4.0%	4.0%
Expected return on plan assets	—	—	—
Rate of compensation increase	2.0%	2.0%	2.3%

4.2. Pension plans and other post-retirement benefits in Latin America

Enersis, S.A. and its subsidiaries sponsor various benefit plans for its current and retired employees. A description of such benefits follows:

Severance indemnities

Under the Company's employment contracts, it has committed to provide a lump sum payment to each employee in its Chilean entities at the end of their employment, whether due to death, termination, resignation or retirement. Until December 31, 2003, those obligations are calculated based on the present value of the liability determined at each year-end based on the current salary and average service life of each employee. The Company and its Chilean subsidiaries used a discount rate of 9.5% for the years ended December 31, 2002 and 2003. Starting January 1, 2004 the Company changed certain of its underlying assumptions related to its severance indemnities changing the discount rate of 6.5% and modifying the turnover rate.

Benefits for Retired Personnel

Other benefits provided to certain retired personnel of Enersis include electrical service rate subsidies, additional medical insurance and additional post-retirement benefits. Descriptions of these benefits for retired personnel are as follows:

i) Electrical rate service

This benefit is extended only to certain retired personnel of Enersis. These electric rate subsidies result in the eligible retired employees paying a percentage of their total monthly electricity costs, with Enersis paying the difference.

ii) Medical benefits

This benefit provides supplementary health insurance, which covers a portion of health benefits not covered under the institutional health benefits maintained by employees of Enersis. This benefit expires at the time of death of the pensioner.

iii) Supplementary pension benefits

Eligible employees are able to receive a monthly amount designed to cover a portion of the difference between their salary at the point of retirement and the theoretical pension that would have been received had the employee reached the legal retirement age of the Institución de Previsión Social (Institute of Social Welfare). This benefit expires upon the death of the pensioner for the Enersis employee, however, continues to cover the surviving-spouse in the case of employees of the subsidiary Endesa-Chile.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

iv) Worker's compensation benefits

Employees that were entitled to Worker's compensation insurance in prior years for work related injuries receive benefits from the Company when that insurance expires. This benefit continues at the time of death of the pensioner, to cover the surviving-spouse.

The Company has obligations related to post-retirement benefits as stipulated in collective bargaining agreements and pension obligations as stipulated by contract for its subsidiaries in Brazil, Colombia and Chile. Under U.S. GAAP, post-retirement benefits are accounted for under SFAS 106 and pension obligations are accounted for under SFAS 87 which gave rise to an adjustment in the reconciliation to U.S. GAAP relating to Endesa Group's Brazilian subsidiaries of a decrease in net income of €7 million for the year ended December 31, 2004, an increase in net income of €7 million for the year ended December 31, 2003 and a decrease of €29 million for the year ended December 31, 2002, which is presented in the reconciliation table.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

The following data presented under SFAS No. 132 Revised 2004 for Company's post-retirement benefit plans:

2002

	Millions of euros			
	At december 31, 2002			
	Pension Benefits			Other Benefits
	Non Contributory	Contributory	Total	Total
Assets and obligations				
Accumulated benefit obligation	(39.93)	(199.78)	(239.71)	44.58
Plan assets at fair value	—	125.19	125.19	—
Unfunded accumulated benefit	<u>(39.93)</u>	<u>(74.59)</u>	<u>(114.52)</u>	<u>44.58</u>
Changes in benefit (obligations)				
Benefit (obligations) at January 1	(105.33)	(171.30)	(276.63)	(32.83)
Price-level restatement	1.73	3.84	5.57	0.63
Foreign exchange effect	34.84	28.49	63.33	11.43
Net periodic expense	(10.83)	(10.26)	(21.09)	(29.34)
Benefits paid	3.37	16.31	19.68	(0.23)
Company contributions	—	43.73	43.73	5.41
Benefit (obligations) at December 31	<u>(76.22)</u>	<u>(89.19)</u>	<u>(165.41)</u>	<u>(44.93)</u>
Funded Status of the Plans				
Projected Benefits Obligation	(78.94)	(201.63)	(280.57)	(44.72)
Fair value of the plans assets	—	125.19	125.19	—
Funded Status	(78.94)	(76.44)	(155.38)	(44.72)
Unrecognized loss	1.13	(24.15)	(23.02)	(17.54)
Unrecognized net prior service cost	1.59	11.40	12.99	17.33
Net liability recorded under U.S. GAAP	<u>(76.22)</u>	<u>(89.19)</u>	<u>(165.41)</u>	<u>(44.93)</u>
Change in the plan assets				
Fair value of plans assets, beginning	—	116.12	116.12	—
Foreign exchange effect	—	(25.98)	(25.98)	—
Actual return on the plan assets	—	37.70	37.70	—
Employer contributions	—	18.36	18.36	—
Plan participant contributions	—	5.52	5.52	—
Benefits paid	—	(26.53)	(26.53)	—
Fair value of plans assets, ending	<u>—</u>	<u>125.19</u>	<u>125.19</u>	<u>—</u>
Components of net periodic Benefits expenses				
Service cost	0.08	(1.48)	(1.40)	(6.81)
Interest cost	(5.25)	(15.78)	(21.03)	(4.00)
Expected return on assets	—	10.11	10.11	—
Amortization gain (loss)	(4.71)	(1.53)	(6.24)	(15.64)
Amortization of transition asset	(0.95)	(1.58)	(2.53)	(2.89)
Net periodic expenses	<u>(10.83)</u>	<u>(10.26)</u>	<u>(21.09)</u>	<u>(29.34)</u>

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Assumptions as of December 31, 2002

	Pension Benefits			Other Benefits		
	Chile	Colombia	Brazil	Chile	Colombia	Brazil
Weighted—discount rate ⁽¹⁾	9.5%	13.5%	11.3%	9.5%	13.5%	11.3%
Weighted—salary increase	3.0%	8.3%	5.5%	—	—	—
Weighted—return on plan assets ⁽¹⁾	—	—	11.3%	—	—	—
Weighted—long term inflation ⁽²⁾	3.0%	8.3%	4.5%	3.0%	8.3%	4.5%

(1) Includes fixed long term inflation assumption detail in (2)

2003

	Millions of Euros			
	At December 31, 2003			
	Pension Benefits			Other Benefits
	Non Contributory	Contributory	Total	Total
Assets and obligations				
Accumulated benefit obligation	(49.19)	(230.48)	(279.67)	(39.46)
Plan assets at fair value	—	158.80	158.80	—
Unfunded accumulated benefit	—	(71.68)	(120.87)	(39.46)
Changes in benefit (obligations)				
Benefit (obligations) at January 1	(76.22)	(89.19)	(165.41)	(44.93)
Price-level restatement	0.55	0.89	1.44	0.35
Foreign exchange effect	9.20	14.26	23.46	3.92
Net periodic expense	(14.93)	(21.87)	(36.80)	1.81
Benefits paid	3.13	13.87	17.00	0.07
Company contributions	—	0.38	0.38	(2.33)
Benefit (obligations) at December 31	(78.27)	(81.66)	(159.93)	(41.11)
Funded Status of the Plans				
Projected Benefits Obligation	(76.74)	(232.50)	(309.24)	(40.18)
Fair value of the plans assets	—	158.80	158.80	—
Funded Status	(76.74)	(73.70)	(150.44)	(40.18)
Unrecognized loss (gain)	(2.33)	(21.25)	(23.58)	(16.29)
Unrecognized net prior service cost	0.80	13.29	14.09	15.36
Net liability recorded under U.S. GAAP	(78.27)	(81.66)	(159.93)	(41.11)
Change in the plan assets				
Fair value of plans assets, beginning	—	125.19	125.19	—
Foreign exchange effect	—	(14.73)	(14.73)	—
Actual return on the plan assets	—	47.49	47.49	—
Employer contributions	—	12.04	12.04	—
Plan participant contributions	—	5.10	5.10	—
Benefits paid	—	(16.29)	(16.29)	—
Fair value of plans assets, ending	—	158.80	158.80	—
Components of net periodic Benefits expenses				
Service cost	0.03	(1.70)	(1.67)	0.95
Interest cost	(9.61)	(20.82)	(30.43)	0.29
Expected return on assets	—	32.09	32.09	—
Amortization gain (loss)	(4.56)	(28.90)	(33.46)	(0.45)
Amortization of transition asset	(0.79)	(2.54)	(3.33)	1.02
Net periodic expenses	(14.93)	(21.87)	(36.80)	1.81

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

Assumptions as of December 31, 2003

	Pension Benefits			Other Benefits		
	Chile	Colombia	Brazil	Chile	Colombia	Brazil
Weighted—discount rate ⁽¹⁾	9.5%	12.8%	11.3%	9.5%	12.8%	11.3%
Weighted—salary increase	3.0%	7.5%	5.5%	—	—	—
Weighted—return on plan assets ⁽¹⁾	—	—	11.3%	—	—	—
Weighted—long term inflation ⁽²⁾	3.0%	7.5%	4.5%	3.0%	7.5%	4.5%

(1) Includes fixed long term inflation assumption detail in (2)

2004

	Millions of Euros			
	At December 31, 2004			
	Pension Benefits			Other Benefits
	Non Contributory	Contributory	Total	Total
Assets and obligations				
Accumulated benefit obligation	(75.07)	(253.51)	(328.58)	(47.08)
Plan assets at fair value	—	168.71	168.71	—
Unfunded accumulated benefit	—	(84.80)	(159.87)	(47.08)
Changes in benefit (obligations)				
Benefit (obligations) at January 1	(78.27)	(81.66)	(159.93)	(41.11)
Price-level restatement	(1.22)	2.57	1.35	(0.62)
Foreign exchange effect	9.81	1.53	11.34	(0.88)
Net periodic expense	(3.69)	(22.15)	(25.84)	(4.56)
Benefits paid	0.95	21.43	22.38	5.43
Company contributions	—	(0.05)	(0.05)	(10.58)
Benefit (obligations) at December 31	(72.42)	(78.33)	(150.75)	(52.32)
Funded Status of the Plans				
Projected Benefits Obligation	(75.07)	(238.22)	(313.29)	(51.00)
Fair value of the plans assets	—	168.71	168.71	—
Funded Status	(75.07)	(69.51)	(144.58)	(51.00)
Unrecognized loss (gain)	—	(22.84)	(22.84)	12.08
Unrecognized net prior service cost	2.65	14.02	16.67	(13.40)
Net liability recorded under U.S. GAAP	(72.42)	(78.33)	(150.75)	(52.32)
Change in the plan assets				
Fair value of plans assets, beginning	—	158.80	158.80	—
Foreign exchange effect	—	(16.78)	(16.78)	—
Actual return on the plan assets	—	16.60	16.60	—
Employer contributions	—	9.71	9.71	—
Plan participant contributions	—	3.46	3.46	—
Benefits paid	—	(3.08)	(3.08)	—
Fair value of plans assets, ending	—	168.71	168.71	—
Components of net periodic Benefits expenses				
Service cost	(0.84)	(1.84)	(2.68)	(0.66)
Interest cost	(9.50)	(24.47)	(33.97)	(1.30)
Expected return on assets	—	34.90	34.90	(1.59)
Amortization gain (loss)	6.65	(20.34)	(13.69)	(1.01)
Amortization of transition asset	—	(10.40)	(10.40)	—
Net periodic expenses	(3.69)	(22.15)	(25.84)	(4.56)

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<u>Assumptions as of December 31, 2004</u>	<u>Pension Benefits</u>			<u>Other Benefits</u>		
	<u>Chile</u>	<u>Colombia</u>	<u>Brazil</u>	<u>Chile</u>	<u>Colombia</u>	<u>Brazil</u>
Weighted—discount rate ⁽¹⁾	6.5%	11.9%	10.2%	6.5%	11.9%	10.2%
Weighted—salary increase	4.0%	6.8%	5.2%	4.0%	6.8%	5.2%
Weighted—return on plan assets ⁽¹⁾	—	—	10.2%	—	—	—
Weighted—long term inflation ⁽²⁾	2.5%	6.8%	4.0%	2.5%	6.8%	4.0%

(1) Includes fixed long term inflation assumption detail in (2)

Followings is a schedule of estimated pay-out of pension benefits in each of the next five years:

<u>As of December 31,</u>	<u>2004</u>
	<u>Millions of euros</u>
2005	33
2006	33
2007	35
2008	35
2009	36
Thereafter	<u>142</u>
	<u>314</u>

4.3. Special termination benefits

As described in Notes 4, 6 and 15, Endesa Group recorded provisions, for special termination benefits to employees who might retire in future years, as a result of the electric utilities' transition to a competitive market. These future costs were considered costs of transition to a competitive environment (see Note 6) and were recorded mainly to reserves and deferred charges. Additionally, as explained in Note 6-d, the Ministerial Order dated March 28, 2001, provided for the possibility of writing off against reserves the amount of the capitalized costs of transition to competition that would be recovered through the fixed remuneration but, as of December 31, 2000, were not considered to be recoverable through the fixed remuneration for the transition to competition arising solely as a result of the elimination by Royal Decree Law 2/2001 of the assignment of 4.5% of billings for electricity sales to consumers. Accordingly, under Spanish GAAP a portion of the deferred charges due to the transition to competition relating to the labor force reduction plans approved by the Company was written off against reserves in shareholders' equity.

Under U.S. GAAP the employer shall recognize the liability for voluntary retirements as an expense in the Income Statement during each respective year only when the employees accept the offer and will be entitle to benefits. Therefore such costs have been adjusted in the reconciliation table.

5. Business Combinations and Goodwill

5.1. Goodwill arising under U.S. GAAP

Under Spanish GAAP, the difference between the purchase price paid in cash for an investment and the participation of the parent company in the equity of such investment should be allocated to the identified assets and liabilities of the subsidiary, up to the limit applicable to the parent's investment in the difference between the book value and the fair value of the related item. The remaining difference, if positive, should be shown as goodwill and should be amortized over a maximum period of twenty years.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

Under U.S. GAAP, assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchased price over the estimated fair value of the net identifiable assets is recorded as goodwill.

In addition, under Spanish GAAP, business combinations that are realized through the issuance of shares are normally accounted for under the pooling of interests method. Under U.S. GAAP, when equity securities (including any warrants, rights or options) are issued as consideration in business combinations, their fair value should be considered in order to determine the purchase price. Under U.S. GAAP, acquisitions are recorded in accordance with the purchase accounting method. By this method, the excess of the cost under US GAAP over the fair value of acquired assets and liabilities should be recognized as goodwill.

The main adjustments to goodwill included in the reconciliation table are as follows:

- i. On July 16, 1999, Sevillana de Electricidad, S.A., Fuerzas Eléctricas de Cataluña, S.A. (FECSA), Empresa Hidroeléctrica del Ribagorzana, S.A. (ENHER), Eléctricas Reunidas de Zaragoza, S.A. (ERZ), Gas y Electricidad, S.A. (GESA), Unión Eléctrica de Canarias, S.A. (UNELCO), Electra de Viesgo, S.A. (VIESGO) and Saltos del Nansa, S.A. (NANSA) were merged into Endesa, S.A. (absorbing company). Under the merger, which was effective for accounting purposes from January 1, 1999, the absorbing company acquired the absorbed companies' assets and liabilities in bloc by universal succession. The merger took place through the exchange of the shares held by the merged companies' minority stockholders for newly issued shares of Endesa, S.A. Under U.S. GAAP such acquisition of the shares from the minority stockholders is accounted for under the purchase method. Accordingly, the cost of the acquired company is measured by the fair value of the equity securities issued and goodwill is recognized for the difference between the purchase price and the fair value of the net assets acquired. Furthermore, under U.S. GAAP the purchase of the shares from the minority stockholders is recorded on the consummation date of the transaction (July 16, 1999) rather than the accounting effective date. Accordingly, minority interest in the results of operations recorded for the period from January 1, 1999 to July 16, 1999 in Spanish GAAP was adjusted in U.S. GAAP for the purposes of purchase price allocation.
- ii. Additionally, as a result of the acquisitions of shareholdings in previous years the goodwill was adjusted for the differences in Spanish GAAP and U.S. GAAP for the assets and liabilities acquired/assumed.
- iii. For Spanish GAAP purposes the goodwill arising on any acquisition, when the parent company is the direct acquirer of companies abroad, is translated to euros at the exchange rates prevailing at the time the goodwill arises without any subsequent currency translation. For U.S. GAAP purposes the goodwill is considered as a foreign currency asset and is translated at the year-end exchange rate.

Business Combination Additional Information

As explained in note 10, the ENDESA GROUP acquired in September 2004 an additional 35% of SNET for a cash consideration of €121 million and recorded under Spanish GAAP an additional provision for contingent consideration based upon earnings for €22 million. As a result of this acquisition, SNET is now being consolidated in our financial statements. Under US GAAP the Company is completing a purchase price allocation in order to properly identify the part of such difference that correspond to an unrecorded intangible assets and residual equity method goodwill. Under Spanish GAAP property plant and equipment have been recorded based upon their initial fair value estimate and all remaining difference to the price paid and provision for the contingent consideration was recorded as goodwill. Under US GAAP the purchase price of this acquisition would only considered the surrendered cash. In addition, since this business combination was made in

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

the last semester of 2004, under US GAAP an initial amount of €229 million of preliminary recorded amount of goodwill from this transaction is pending to be eventually allocated to any potential intangibles and/or to additional fair value of assets and liabilities acquired/assumed during the next 9 months. Considering that the intangibles that could result, if any, would have a long useful life, the effect of the amortization of such intangibles in year 2004 (three months period from the transaction) would not be significant. Under Spanish GAAP, goodwill is being amortized over a period of twenty years, while, under U.S. GAAP, according to SFAS No. 142, goodwill is not being amortized.

The following unaudited proforma information presents a summary of the effect in the Company's consolidated results of operations as if the acquisitions described above had occurred on January 1, 2004 and 2003.

	Millions of Euros	
	Year ended December 31, 2003	Year ended December 31, 2004
Revenues	689	533
Net income	4	5
Basic EPS (Euros)	0.00	0.00

These unaudited proforma results have been prepared for comparative purposes only. They do not purport to be indicative of the results of operations that actually would have resulted had these operations occurred at January 1, 2004 and 2003, or future results of operations of the consolidated entities.

5.2. Reversal of goodwill amortization

Under US GAAP effective January 1, 2002, the Group adopted SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Under SFAS 142, goodwill related to subsidiaries and equity method investments is no longer amortized over its estimated useful life. Goodwill on consolidated subsidiaries is tested for impairment on an annual basis and whenever indicators of impairment arise. Under US GAAP, the goodwill impairment test, which is based on fair value, is performed on a reporting unit level. Under Spanish GAAP, goodwill impairment test is calculated based upon the difference between the fair value and recorded value of the each individual subsidiary, a much lower level than US GAAP reporting units. Goodwill on equity method investments continues to be tested for impairment in accordance with Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18").

Under SFAS No. 142, intangible assets with indefinite lives are not amortized. Instead they are carried at the lower of cost or market value and tested for impairment at least annually. All other recognized intangible assets continue to be amortized over their estimated useful lives. The Group does not have intangible assets with indefinite useful lives (see Note 4.a). The main intangible assets under Spanish GAAP relate to research and developments expenses, concessions, patents, licenses, trademarks and information technology applications. The carrying amounts of intangible assets as of December 31, 2004 are amortized on a straight-line basis over the remaining useful lives of the assets. Thus the estimated aggregate amortization expense for each of the five succeeding fiscal years is €116 million.

Endesa Group has performed the transitional goodwill impairment test required by SFAS No. 142 as of January 1, 2002 and the annual goodwill impairment test as of December 31, 2002, 2003 and 2004.

The fair value of the reporting units for which goodwill has been assigned was considered to be the best reasonably consistent measurement of fair value measurements that included both income and market approaches. The income approach used considered the traditional discounted cash flow method. Goodwill in each operating segment is being tested for impairment as of December 31 of every year.

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As of December 31, 2004, as a result of the test performed, Endesa Group determined that no impairment under US GAAP was required for the goodwill. Therefore, since under Spanish GAAP goodwill is being tested in a much lower level of financial information than the US GAAP reporting unit, the Spanish GAAP goodwill write off have been properly reversed.

The pro-forma effect of applying SFAS No. 142 for the periods presented is as follows:

	(millions of euros)		
	As of December 31,		
	2002	2003	2004
Reported net income under U.S. GAAP	1,545	1,419	1,576
Add back: Goodwill amortization Spanish GAAP	—	—	—
Add back: Amortization on additional U.S. GAAP goodwill	—	—	—
Adjusted net income under U.S. GAAP	1,545	1,419	1,576
Net income per share under U.S. GAAP(*)	1.46	1.34	1.49

(*) Computed considering 1,058,752,117 outstanding shares in 2004, 2003 and 2002, respectively.

5.3. Goodwill in subsidiaries and equity method investments

Under U.S. GAAP goodwill related to subsidiaries are disclosed separately as an intangible asset while goodwill on equity method investments are included in the carrying amount of the investments. Under Spanish GAAP there is no such distinction.

As of December 31, 2004 and 2003, the carrying amounts of goodwill arising on consolidated entities are as follow:

	millions of euros						
	Domestic electricity activity	Latin America electricity activity			European electricity activity		Total
Changes in the amounts of Goodwill-US GAAP		Chile	Brazil	Others	Italy	France	
Balance as of January 01, 2003	642	2,490	323	20	—	—	3,475
Additions/Transfers	—	60	21	7	1,479	—	1,567
Retirements	—	(86)	—	—	—	—	(86)
Translation differences and monetary adjustment	—	37	5	(2)	—	—	40
Impairments	—	—	—	—	—	—	—
Balance as of December 31, 2003	642	2,501	349	25	1,479	—	4,996

	millions of euros						
	Domestic electricity activity	Latin America electricity activity			European electricity activity		Total
Changes in the amounts of Goodwill-US GAAP		Chile	Brazil	Others	Italy	France	
Balance as of January 01, 2004	642	2,501	349	25	1,479	—	4,996
Additions/Transfers	—	102	7	—	15	275	377
Retirements	—	—	—	—	—	(46)	(24)
Translation differences and monetary adjustment	—	32	3	4	—	—	39
Impairments	—	—	—	—	—	—	—
Balance as of December 31, 2004	642	2,635	359	29	1,494	229	5,388

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During 2004 the Company elected to focus on a geographic region for its International Electricity Business Segment. Therefore, management has reorganized the reporting units of such segment based upon countries resulting in the integration of all previous reporting unit segregated in services and countries to a single reporting unit that represent all the Company's integrate services in each respective country.

As of December 31, 2004 and 2003, the carrying amounts of goodwill arising on equity method investments are as follow:

	millions of euros			
	U.S. GAAP			
	Auna	Snet	Other	Total
Balance as of January 01, 2003	406	275	—	681
Additions	—	—	—	—
Retirements/Transfers	—	—	—	—
Translations differences and monetary adjustment	—	—	—	—
Impairments	—	—	—	—
Balance as of December 31, 2003	406	275	0	681
	millions of euros			
	U.S. GAAP			
	Auna	Snet	Other	Total
Balance as of January 01, 2004	406	275	—	681
Additions	175	—	15	190
Retirements/Transfers	—	(275)	—	(275)
Translations differences and monetary adjustment	—	—	—	—
Impairments	—	—	—	—
Balance as of December 31, 2004	581	0	15	596

6. Negative Goodwill

As of December 31, 2004 and 2003, the carrying value of the negative goodwill in consolidation under Spanish GAAP amounted to €12 million and €13 million, respectively.

Under Spanish GAAP, the negative goodwill must be credited to a specific liability account with no amortization or reduction, except for additional liabilities of the subsidiary at the purchase date not considered in the initial consolidation, unfavorable evolution of the results of the acquired company, or as a result of a change in the ownership interest in the subsidiary. Under U.S. GAAP, all negative goodwill was allocated to proportionately reduce the values assigned to non-current assets.

7. Income Taxes

The Spanish accounting principles for recording income taxes differ from those applicable under U.S. GAAP as regards the period in which certain prepaid and deferred taxes must be recorded and with respect to the required disclosures. The differences affecting the Group are as follows:

- a) Under Spanish GAAP, deductible temporary differences that are expected to reverse in more than ten years from the balance sheet date are not recorded as deferred tax assets. Deferred income taxes under U.S. GAAP are recognized based on the expected future tax consequences of substantially all

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differences between the financial statement basis and the tax basis of assets and liabilities and all available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of the deferred tax asset.

- b) Under Spanish GAAP, deferred tax assets arising from tax loss carryforwards are recognized only when their future realization is assured “beyond any reasonable doubt”, as opposed to when realization is “more likely than not” under U.S. GAAP.

Deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows:

	Millions of Euros			
	Deferred Taxes			
	2003		2004	
	Assets	Liabilities	Assets	Liabilities
Balance under Spanish GAAP (Note 17)				
Current	46	—	—	—
Non-current	2,713	1,459	2,619	1,548
	<u>2,759</u>	<u>1,459</u>	<u>2,619</u>	<u>1,548</u>
Adjustments under U.S. GAAP				
Tax credits	398	—	368	—
Legal Restatements	525	—	473	—
Early retirements (both pension and special benefits)	(207)	—	(166)	—
Derivative instruments	(41)	—	15	—
Capitalized interest cost	(41)	—	(62)	—
Capit. Foreign C. Exchange Losses and Adm. E.	(35)	—	16	—
Sale and leaseback involving real estate	44	—	39	—
Asset retirement obligation	74	—	65	—
Others	(99)	—	(105)	102
Total adjustments under U.S. GAAP	<u>618</u>	<u>—</u>	<u>644</u>	<u>102</u>
Valuations allowance	<u>(403)</u>	<u>—</u>	<u>(368)</u>	<u>—</u>
Deferred tax under U.S. GAAP	<u>2,974</u>	<u>1,459</u>	<u>2,895</u>	<u>1,650</u>

As a consequence of changes during 1997 in the consolidated tax regime, some companies of the consolidated group were able to generate certain income taxes credits, which were not previously available to the Group. These additional tax credit carryforwards were utilized to reduce future taxable income and expired after 5 years. Since the realization of the credit carryforward is more likely than not to be realized by the Group, a deferred tax credit under U.S. GAAP was recorded for this amount. As of December 31, 2001, after applying the tax credits and tax relief for the year, there were no significant unused tax credits for Spanish GAAP purposes and, therefore, this difference no longer exists.

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The deferred tax assets under U.S. GAAP arose from the following:

	Millions of Euros	
	2003	2004
Provisions for internal pension allowance which, under Spanish GAAP tax regulations, are not tax deductible until effectively paid or contributed to an external pension fund . . .	11	—
Provisions for personnel restructuring plans, which become tax-deductible when they are effectively paid	909	1,093
Legal Restatements	525	473
Tax basis for depreciation of investments in excess of accounting basis	1,012	1,008
Revenue Recognition	62	35
Tax loss carryforwards and tax credits	272	104
Allowance for bad debts	46	39
Sale and leaseback involving real estate	44	39
Asset retirement obligation (SFAS No. 143)	74	65
Other deferred tax assets (extraordinary repairs, obligations, restructuring of facilities, ...) . .	19	38
	<u>2,974</u>	<u>2,895</u>

The deferred tax liabilities arose mainly from:

	Millions of Euros	
	2003	2004
Accounting basis for depreciation of property in excess of tax basis	618	650
Capital gains and others	841	1,000
	<u>1,459</u>	<u>1,650</u>

A reconciliation of the Spanish GAAP Statutory Income Tax rate to the Company's effective tax rate on net income is as follows:

	2002	2003	2004
Statutory Spanish GAAP tax	550	850	781
Effect of lower tax rate	(236)	(127)	(61)
Non-taxable items	209	(28)	(142)
Deductions	(202)	(142)	(173)
Other	116	(3)	(5)
Tax (benefit) expense at effective tax rate	<u>437</u>	<u>550</u>	<u>400</u>

8. Accounting for certain investments in debt and equity securities (SFAS No. 115)

Under Spanish GAAP investments in debt and marketable equity securities are stated at the lower of cost and market value. Market value is the lower of the average market price for the last quarter and the year-end market price. Where the interest in a listed equity security exceeds 3% such investments are recorded using the equity method under Spanish GAAP. The adjustment to eliminate the effect of equity accounting is dealt with in item 3.

U.S. GAAP (SFAS No. 115) requires investments in debt and marketable equity securities to be classified on the basis of the purpose for which they were acquired (held-to-maturity securities, trading securities and

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available-for-sale securities). The treatment of the unrealized gains and losses differs depending on the classification: unrealized gains and losses (except other than temporary impairments) on securities that the company considers held-to-maturity are not recorded; unrealized gains and losses on securities considered available-for-sale are not recorded in the income statement but as a separate component of shareholders' equity, other comprehensive income; and unrealized gains or losses on trading securities are recorded in the income statement. Market value is determined using the year-end market price.

For U.S. GAAP purposes, unrealized gains/losses are included in stockholders' equity as a component of other comprehensive income net of tax effect until they are realized or recorded into earnings due to other than temporary decline of value.

Held-to-maturity and available-for-sale securities are impaired when their fair values decline below their amortized costs. In order to determine whether other than temporary impairment exists Endesa Group considers all facts and circumstances. While one factor generally is not more important than another in this process, there are two factors that are considered primary. They are (1) the duration of the decline in value of the security and (2) the severity of the decline in value (measured as a percentage change from the cost basis).

During 2002 due to the market conditions, Endesa Group recorded other than temporary impairment of €115 million of its investments in equity securities.

The following table presents the aggregate amount of unrealized gains and losses; the aggregate related fair value of our investments and unrealized gains or losses segregated by those that have been in a continuous unrealized gain or loss position for less than 12 months and those that have been in a continuous unrealized gain or loss position for 12 months or longer.

	<u>Original Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains less than 12 months</u>	<u>Gross Unrealized Gains previous years</u>	<u>Total Gross Unrealized Gains</u>
Red Eléctrica de España	20	67	14	33	47

9. Treasury Stock

Pursuant to Spanish GAAP, since there are no plans to retire the treasury stock of the Controlling Company (Endesa, S.A.), these shares are recorded at the lower of cost or underlying book value in the accompanying consolidated balance sheet, and a restricted reserve was recorded in this connection. If the cost of the shares of treasury stock is higher than their market value, the provision required to cover this difference is charged to the "Non operating Income" caption in the consolidated statement of income. The remainder of the provisions recorded for the difference between the underlying book value and the lower of the cost or market value of the shares is charged to unrestricted reserves. Gains and losses on subsequent sales of treasury stock are recorded in net income.

Under U.S. GAAP capital stock acquired that is not retired may be treated as if it had been retired or, if not prohibited by law, carried at cost and reflected as a separate deduction from shareholders' equity. Gains and losses on subsequent sales of treasury stock are not recognized in net income.

10. Restructuring of the mining business

As part of the contemplated restructuring of the mining business in future years, the Group recorded, in its 1995 Spanish GAAP financial statements, a provision for restructuring costs. Under U.S. GAAP, some of the costs included in the provision could not be accrued under the guidelines of EITF 94-3 and SFAS No. 146, from

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January 1, 2003. Since then, the Group has recorded accrued costs for the year and re-estimated the final value of the provision. Accordingly, such costs have been adjusted in the reconciliation to U.S. GAAP, since the accrued costs have never met the applicable criteria.

11. Foreign currency transaction gains and losses

Under Spanish GAAP, gains arising as a result of foreign currency exchange rate fluctuations are deferred until their realization. Under U.S. GAAP, foreign currency transaction gains or losses are generally recorded in the Statement of Income immediately.

12. Stock issuance expenses and start-up cost

- 12.1. Under Spanish GAAP, expenses relating to the issuance of capital stock may be capitalized and amortized over five years. Under U.S. GAAP, direct costs related to the issuance of capital stock must be deducted from the proceeds of the new capital.
- 12.2. In accordance with Spanish GAAP, period costs incurred during the start-up of a business that will generate future revenues may be capitalized and are amortized over five years. Under U.S. GAAP, all costs incurred during the start-up period should be expensed in accordance with Statement of Position 98-5 (“SOP 98-5”), except for those costs, which are directly related to and specifically identifiable with the system construction, or those which are clearly related to asset acquisitions. SOP 98-5 defines start-up activities as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation. Start-up activities also include activities related to organizing a new entity (commonly referred to as organization costs). Start-up costs expensed include pre-operating costs such as organizational costs, advertising and promotion market research and administrative costs.

An adjustment to account for these differences is included in the reconciliation table.

13. Research and Development

In accordance with Spanish GAAP, the Group capitalizes certain Research and Development expenses when:

- A specific project and a method for allocating and recognizing the direct costs relating to the project exist.
- It can be demonstrated the project is technically and commercially feasible and the Group has adequate resources to enable the product or process to be marketed.

Under U.S. GAAP all research and development expenses and any related subsidies are recorded in earnings as incurred.

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For the rest of intangibles, the gross carrying amount and accumulated amortization, in total and by major intangible asset class, and the aggregate amortization expense for the period for intangible assets subject to amortization are as follows:

<u>Intangible Assets</u>	<u>Balance at 12/31/02</u>	<u>Inclusions/ Exclusions</u>	<u>Additions</u>	<u>Provisions and retirements</u>	<u>Other</u>	<u>Balance at 12/31/03</u>	<u>Inclusions/ Exclusions</u>	<u>Additions</u>	<u>Provisions and retirements</u>	<u>Other</u>	<u>Balance at 12/31/04</u>
Concession, patents, licenses, trademarks and information technology	852	(10)	80	(5)	50	967	(123)	107	(19)	(87)	845
Allowances and accumulated amortization	(390)	3	0	(77)	(13)	(477)	32	(5)	(85)	47	(488)
TOTAL	<u>462</u>	<u>(7)</u>	<u>80</u>	<u>(82)</u>	<u>37</u>	<u>490</u>	<u>(91)</u>	<u>102</u>	<u>(104)</u>	<u>(40)</u>	<u>357</u>

14. Capitalization of interest

i. Spanish subsidiaries of Endesa Group

Interest incurred during construction of tangible fixed assets is capitalized under Spanish GAAP. In accordance with Royal Decree 437/1998, the method used to determine the amount of financial expenses capitalized is as follows:

- a) The specific-purpose financing used for the acquisition or construction of certain of the Company's assets is allocated to the assets so that the financial expenses incurred on such financing are capitalized in full.
- b) The general-purpose financing, both equity and debt, is allocated proportionally to the rest of the Company's assets and the accrued interest plus related foreign exchange differences on borrowed funds allocated to construction in progress and nuclear fuel stocks in process are capitalized (in the same proportions) by applying the average effective interest rate on such financing to the average aggregate capitalizable investment.

Under U.S. GAAP interest is generally capitalized on assets that are constructed or otherwise produced for an enterprise's own use using the overall borrowing. This method differs from that used by Endesa Group, because the interest rate used for the capitalization is calculated on the basis of the interest on the debt as a percentage of the total financial debt and equity.

ii. Latin America Subsidiaries of Endesa Group

In accordance with Spanish GAAP, the Group has capitalized interest on debt directly related to property, plant and equipment under construction.

Under U.S. GAAP, the capitalization of interest on qualifying assets under construction is required, regardless of whether interest is associated with debt directly related to a project.

The accumulated amount of interest capitalized under U.S. GAAP for Endesa Group is €184 million, net of accumulated amortization of €30 million. The accounting differences between Spanish GAAP and U.S. GAAP for financing costs and the related depreciation expense are included in the reconciliation table.

Moreover, under Spanish GAAP foreign exchange gain or loss incurred during construction of tangible fixed assets is also capitalized. Under U.S. GAAP, such costs are not eligible for capitalization under SFAS 52; instead these costs are expensed as incurred.

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15. Revenue recognition

- i. Under Spanish GAAP, revenues and expenses are recognized on an accrual basis, i.e., when the goods and services are actually provided, regardless of when the resulting monetary or financial flow occurs.

Under U.S. GAAP and before the issuance of Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, (SAB 101 modified by SAB 104, or SEC Staff Accounting Bulletin Topic 13-A.1, Revenue Recognition), there was no difference between Spanish and U.S. GAAP.

Following the adoption of SAB 101, the Group has changed its accounting principles under U.S. GAAP in order to comply with this new rule.

Under Spanish GAAP

- Up-front fees, which cover the cost of the extension installed for new customers, are recorded as deferred income and amortized to income over the useful life of the extension facilities financed by these charges.
- The up-front charges for connection were credited to income, as they are viewed as a reimbursement of the costs of enhancing the electric network in prior years.

Under U.S. GAAP, these up-front charges are credited to deferred revenue and amortized to income over the expected term of the customer relationship. The effect on shareholders' equity and net income for the years presented is included in the reconciliation table.

- ii. Some Brazilian subsidiaries which are considered Regulated enterprises according to SFAS No. 71 recorded the revenues and deferred the cost established by the Brazilian Government to compensate the effects of the energy shortage in 2002 and 2001. These revenues and deferred costs were fully recognized for Spanish GAAP purposes. Under U.S. GAAP, €38 million and €85 million recognized by Endesa Group as of December 31, 2004 and 2003 respectively as additional revenue would not be recovered in the next 24 months, and accordingly has been reversed for U.S. GAAP purposes, as prescribed by EITF Issue 92-7, "Accounting by rated-regulated utilities for the effects of certain alternative revenue programs".

16. Translation of financial statements of ENERSIS' subsidiaries

In 1998, the Chilean Association of Accountants issued its Technical Bulletin ("BT") No. 64. BT-64 requires the adoption of the U.S. dollar as the "functional currency" as part of a comprehensive basis of adjusting for inflation for those financial statements of foreign subsidiaries that operated in "unstable countries" (as defined by BT-64), and which are not considered to be an extension of the parent company's operations. Enersis Group (a Chilean SEC registrant which is a subsidiary of Endesa Group) applies this accounting policy also under U.S. GAAP, since BT-64 constitutes an integral part of a comprehensive basis of adjusting for inflation and, therefore, does not need to be eliminated from accounts of the Chilean company for SEC purposes.

However in view of the changes in the economic circumstances in the Latin American region, the Company determined that consideration of the U.S. dollar as the functional currency of these subsidiaries as required by BT-64 was no longer appropriate in 2001. As a result, management decided to discontinue the use of BT-64 in preparation of the U.S. GAAP accounts and apply the provisions of SFAS No. 52, "Foreign Currency Translation," beginning January 1, 2001. As a result, the adjustment included in net income and shareholder's equity in the reconciliation for 2004 and 2003 represents the difference between the historical rates applied under Spanish GAAP and U.S. GAAP to the translation of the financial statements of certain Latin American subsidiaries, due to the application of BT-64 prior to 2001 which is being amortized over the remaining useful life of the respective assets that gave raise to this adjustment for each of the companies.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

17. Loss contingencies

Under Spanish GAAP, possible losses are recorded as soon as they become known. Moreover, an analysis is performed when it is probable that an asset has been impaired, and the impairment is recorded only when the carrying amount of an asset is not considered recoverable and exceeds its discounted cash flows. All these impairments posted under Spanish GAAP are analyzed under U.S. GAAP in order to see whether they comply with the requirements of SFAS No.144 and whether the carrying amount of a long-lived asset is not recoverable and exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. For those applicable circumstances, under U.S. GAAP an impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. We analyze if all the impairments recorded in our Spanish GAAP financial statements comply with U.S. accounting standards.

The Group, following the Spanish GAAP, reversed as of December 31, 2004, some provisions for possible loss contingencies due to the Argentinean risk. Under U.S. GAAP those provisions have been not recorded in previous years because they did not meet the requirements of being considered probable (“events that are likely to occur”) and that the amount of loss can be reasonable estimated.

18. Derivative instruments and hedging activities

Under U.S. GAAP Endesa Group adopted, effective January 1, 2001, Statement of Financial Accounting Standards No. 133, (“SFAS No. 133”), *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (embedded derivatives) and for hedging activities. SFAS No. 133 requires that all derivatives, whether designated in hedging relationships or not, to be recorded on the balance sheet at fair value. The difference between a derivative’s previous carrying amount and its fair value shall be reported as a transition adjustment in net income or other comprehensive income (“OCI”), as appropriate, as the effect of a change in accounting principle. The accounting for changes in fair value of a derivative instrument depends on its intended use and the resulting designation.

If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCI and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The gain or loss on a hedging derivative instrument that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge. The ineffective portion of net investment hedges shall be reported in earnings.

a) Fair Value Hedges

As part of its overall risk management strategy, Endesa Group uses derivatives to convert some of its fixed-rate notes into variable-rate debt to manage the interest rate exposure. These derivatives are typically designated as fair value hedges.

Under Spanish GAAP those derivatives designated as fair value hedges are not recorded at fair value and the respective hedged item is recorded taking into consideration the characteristics of the hedging instrument. Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships that are designated as fair value hedges under U.S. GAAP have their respective hedged items recorded at fair value for the risk being hedged and all hedging ineffectiveness is included in earnings. For the years ended December 31, 2004 and 2003, there was not any material ineffective portion for this hedging transaction.

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

b) Net Investment Hedges

Endesa Group arranges net investment hedges for some investments in foreign companies by financing these investments in the functional currency of the country concerned or in a currency closely correlated thereto. This policy is implemented either by financing in the related currency or using derivatives, such as currency swaps, which provide a synthetic effect of a foreign currency loan, thereby reducing the exchange risk.

Among other operations, Endesa Group has been managing its currency exposure in foreign operations. Additionally, under Spanish GAAP, the requirements to qualify as net investment hedge are different from U.S. GAAP. The main difference relates to the measurement of the hedge ineffectiveness and the conditions to qualify for a hedge item.

For these purposes, the Group redesignated all hedging relationships anew for U.S. GAAP purposes at December 31, 2000. Those economic hedge instruments under Spanish GAAP that did not qualify as net investment hedges under U.S. GAAP were recorded in earnings. Subsequently, all differences regarding net investment hedges under Spanish GAAP and U.S. GAAP were recorded in net income for the years ended December 31, 2003, 2002 and 2001 for €(281) million, €184 million and €200 million, respectively, net of tax and minority interest effects. Until 2002, for those hedging relationship effective under U.S. GAAP, Endesa Group utilized debt instruments denominated in U.S. dollar or deemed to be denominated in U.S. dollar as hedging instruments of its net investment in its South American operations. In 2002 €139 million of exchange gains related to non-derivative instruments used as net investments were recorded under the “Translation Differences” caption, net of related tax effect and the portion relating to minority interests. In 2003, Endesa Group continued to hedge its net investments under Spanish GAAP but under U.S. GAAP this was discontinued because virtually all U.S. dollar debt held by Endesa Group in Spain was repaid. Consequently, beginning in 2003, Endesa Group’s subsidiaries overseas are hedging their foreign currency exposure on foreign currency assets with U.S. dollar debt (or debt instruments deemed to be denominated in U.S. dollar) issued at their level. These hedges are treated as net investment type hedge under Spanish GAAP. Under U.S. GAAP, foreign exchange gains or losses on the aforementioned debt are recorded in statements of income because this hedge does not qualify as net investment hedge. In 2004 Endesa Group discontinued their net investment hedge strategy.

The breakdown in 2002 of the hedging instruments, their recorded amounts and the amount accounted under the Cumulative Translation Adjustment caption were as follows:

<u>Hedging instruments</u>	millions of euros	
	Impact in Cumulative Translation	
	Recorded amount at: December 31, 2002	Adjustment for the year ended: December 31, 2002
Loans	<u>1,344</u>	<u>139</u>
Total	<u><u>1,344</u></u>	<u><u>139</u></u>

c) Cash Flow Hedges

As part of its overall risk management strategy, Endesa Group uses derivatives to convert its variable-rate notes into fixed-rate debt to manage the cash flow exposure due to interest rate. Most of these derivatives, considered effective according to SFAS No. 133, are designated as cash flow hedges.

All components of each derivative’s gain or loss were included in the assessment of the hedge’s effectiveness. Endesa Group did not reclassify any gains or losses into earnings from accumulated other comprehensive income as a result of the discontinuance of cash flow hedges because management estimated that it was still probable that originally forecasted transactions would occur by the end of the originally specified time period.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

Under Spanish GAAP those derivatives designated as cash flow hedges of interest rate are not recorded at fair value and the respective hedged item is recorded taking into consideration the characteristics of the hedging instrument.

Under U.S. GAAP all derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. Additionally, those hedging relationships that are designated as cash flow hedges under U.S. GAAP, have their respective effective portion of the gain or loss recorded in other comprehensive income until it is necessary to be adjusted against net income in order to offset the respective change in expected future cash flows on the hedged transaction. All of the ineffective portion and excluded component of the derivative instruments is included in earnings.

As of December 31, 2004 and 2003 approximately the total amount of €15 million and €24 million, respectively is expected to be reclassified as losses during the next twelve months. The events that are expected to occur in the next twelve months that will trigger the reclassification of these components into earnings include the expiration of the forecasted transaction and the termination of the hedging relationships. The maximum time over which Endesa Group is hedging exposure to variability of cash flow is 179 months. For the years ended December 31, 2004 and 2003, there were not any material ineffective portions for this hedging transaction.

As indicated in note 4.g, on January 1, 2004 the Group has assigned under Spanish GAAP part of its foreign currency debt in a foreign currency cash flow hedge strategy for its forecasted US Dollar sales of electricity in Latin America. Under this hedge strategy exchange gains or losses of the hedge instrument are recorded as cumulative translation adjustment and are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. Under US GAAP such foreign currency cash flow hedge strategy was considered not to be a permitted hedging strategy since the hedging instrument was a nonderivative financial instrument, therefore all effects recorded in Spanish GAAP for this transaction have been properly reversed in the reconciliation note.

d) Embedded Derivatives

Endesa Group has entered into various contracts which may contain “embedded” derivative instruments—implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument—which, according to the requirements of SFAS No. 133, need to be bifurcated from the host contract and accounted for as a derivative instrument. Endesa Group has assessed the existence of potential embedded derivatives contained in its contracts entered into or substantively modified since January 1, 1999. Embedded derivatives in contracts that required bifurcation were recorded at their fair value, which consisted basically of certain energy contracts that under the provisions of SFAS No. 133 and related interpretation, require the bifurcation of certain clauses, and their impact in net income after-tax and minority interest as of December 31, 2004 and 2003 was €(2) million and €1 million, respectively.

e) Other Derivative Contracts

Endesa Group holds various interest rates, foreign exchange and commodity derivative instruments, which were not formally designated under SFAS No. 133 for the application of hedge accounting. The purpose of entering into these derivative contracts is to provide Endesa Group with economic hedges of exposed risks.

Under Spanish GAAP these derivatives are recorded at lower of cost or market value. Under U.S. GAAP all derivatives not designated as economic hedges are recorded on the balance sheet at fair value with all changes in fair value being recorded as a component of income from continuing operations during the period that such contracts remain outstanding.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

In the normal course of operations Endesa Group is involved in energy trading and risk management activities as defined by EITF No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*, (EITF 98-10), as superseded by EITF Issued No. 02-03, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in energy Trading and Risk Management Activities* (EITF 02-03). EITF 02-03 requires that all contracts entered into for trading purposes by an entity involved in such activities (energy trading contracts) that are also considered to be derivatives pursuant to SFAS No. 133 should be measured at fair value and recorded in the consolidated balance sheet with gains and losses included in current earnings. Gains and losses on energy trading contracts that are also considered to be derivatives pursuant to Statement 133 are classified as other income or other expense. EITF 02-03 applies to all energy trading contracts and not just those that meet the definition of a derivative.

As of December 31, 2004 and 2003, Endesa Group had open energy trading contracts that pursuant to EITF No. 02-03 should be marked to market (i.e. measured at fair value determined as of the balance sheet date) with gains recorded in current earnings and an impact in net income of €0 million and €(6) million, respectively before the tax effect.

The approximate fair value as of December 31, 2004 and 2003 of these other derivatives used as economic hedges, but not designated under SFAS No. 133, is set forth below (before tax effect):

<u>Derivatives</u>	Millions of Euros			
	Years ended December 31,			
	2003		2004	
	Assets	Liabilities	Assets	Liabilities
Collar	—	14	—	4
Swaps	4	—	—	75
Fras	—	—	—	—

19. Assets held for sale

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, “Accounting for the Impairment and Disposal of Long-Lived Assets” (SFAS No. 144) which supersedes SFAS No. 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of” and certain provisions of Accounting Principles Board Opinion No. 30 (APB 30) “Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions”. SFAS No. 144 requires that long-lived assets to be disposed of by sale, including discontinued operations, be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also broadens the reporting requirements of discontinued operations to include all components of an entity that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

The Group evaluated the carrying values of all assets held for sale, recording a loss in those cases, if any, that one of the assets’ fair values less cost to sell was lower than the carrying value of those assets. As of December 31, 2004 and 2003 there is not any adjustment related to these assets in the reconciliation table.

Under Spanish GAAP, no restatement to the financial statement information presented in previous years is required after a divestiture has occurred. Under U.S. GAAP, in accordance with SFAS No. 144, the discontinued operations of a component must be retroactively separated form the continuing operations of an entity, when the operations and cash flows of a component which will be eliminated from the ongoing operations of an entity as a result of a disposal transaction and will not have any significant continuing involvement in the operations of a component after the disposal transaction.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The Group evaluated whether any of the assets held for sale met either criteria, noting that the transmission lines and power plants are not components, as they are included as part of larger cash flow generating groups, and the operations of these assets cannot be separated from their respective groups. Additionally, the Group plans to continue generating revenues from Canutillar through a purchase power agreement, management's agreement, and a transmission leasing arrangement with the future buyer. In regards to the sale of the Spanish mainland transmission system to Red Eléctrica de España (REE), Endesa Group, as well as a number of other non-related utility companies, will continue to use the system. A fee established by the Government will be paid to REE by the customers through the utilities companies and the Comisión Nacional de Energía (CNE). Río Maipo and Infraestructura 2000 do meet the conditions for discontinued operations because they have distinct and separable financial results from operations and cash flows. As a result of the disposal the results of operations of these companies have been eliminated from the ongoing operations of the Company as the Group will not have any continuing involvement in the operations of Río Maipo and Infraestructura 2000 after they are sold.

The major classes of discontinued consolidated assets, consolidated liabilities, minority interest and consolidated statement of income and cash flow included in the Spanish GAAP Endesa Group consolidated financial statements are as follows:

	At December 31,
	Millions of Euros
	2002
Assets:	
Equity investments (*)	(51)
Current assets (discontinued)	95
Utility plant and intangible assets (discontinued)	277
Other fixed assets (discontinued)	32
Total assets of discontinued operations	353
Liabilities:	
Current liabilities (discontinued)	132
Long term liabilities (discontinued)	158
Minority interest (discontinued)	45
Total liabilities and minority interest of discontinued operations	335
Cash flow from operating activities (discontinued)	28
Cash flow from investing activities (discontinued)	(30)
Cash flow from financing activities (discontinued)	41
Net change in cash and cash equivalents (discontinued)	39
 (*) Infraestructura 2000 is consolidated in Spanish GAAP under the equity method	
Operating income (discontinued)	36
Ordinary income (discontinued)	22
Consolidated income before taxes (discontinued)	22
Corporate income tax (discontinued)	(3)
Income attributed to minority interests (discontinued)	(6)
Income for the year attributed to the controlling company (discontinued)	13
Net income per share, under Spanish GAAP (*)	0.012

(*) Computed considering 1,058,752,117 outstanding shares in 2002

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

20. Currency Translation Adjustment

Both Spanish GAAP and U.S. GAAP requires that the Currency Translation Adjustment (CTA) arising from the translation of the financial statements of foreign subsidiaries and associated companies is recorded to Shareholders' Equity. However, under Spanish GAAP when an investment in a foreign company is sold, the accumulated CTA is reclassified to consolidated retained earnings while U.S. GAAP requires the accumulated CTA to be credited to the statement of income. This adjustment though does not affect Stockholders' Equity.

In 2003, Endesa Group disposed two foreign entities (Río Maipo and Infraestructura 2000). The accumulated CTA amount related to these entities reflected in statement of income for U.S. GAAP purposes was €16 million.

In 2004 none of the foreign companies were sold and, accordingly, the reconciliation of Spanish GAAP to U.S. GAAP does not include any adjustments in this regard.

21. Asset retirement obligation

Effective January 1, 2003, Endesa Group adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. This standard requires Endesa Group to recognize asset retirement obligations in the period in which they are incurred, if a reasonable estimate of fair value can be made. The asset retirement obligations are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Endesa Group evaluated its leased and owned assets, particularly power plants and mines, utilized in its operations in Spain and overseas. During this evaluation, it was determined that it had legal obligations to return certain assets to their condition before Endesa Group obtained ownership or use of the related asset.

Adoption of this standard resulted, as of December 31, 2003, in an increase in non-current assets and non-current liabilities of €40 million and €250 million, respectively, and a cumulative effect adjustment reducing net income by €137 million after-tax. In 2004, adoption of this standard resulted in an increase in non-current assets and non-current liabilities of €48 million and €267 million, respectively, and a cumulative effect adjustment reducing shareholders' equity by €120 million after-tax.

On a pro forma basis, assuming SFAS 143 had been adopted at the beginning of the period, Endesa Group's Statements of Income for 2002 and 2001 would have decreased by €10 million and €10 million, net of tax, respectively, and the liability for asset retirement obligations as of December 31, 2002 and 2001 would have been €299 million and €286 million, respectively.

A reconciliation of the changes in the asset retirement obligation is depicted below:

	<u>December 31, 2003</u>	<u>December 31, 2004</u>
Beginning Balance	—	312
First Application	299	—
Obligations Incurred	—	—
Obligations Settled	—	—
Accretion Expenses	13	10
Cash Flow Revision	—	(55)
Ending Balance	312	267

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As indicated in note 4.c we have changed our estimated useful life of our nuclear power plant from 30 years to 40 years, therefore such change resulted in the revisions to the timing of the original estimate of undiscounted cash flows and all impacts were recognized a decrease in (a) the carrying amount of the liability for an asset retirement obligation and (b) the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

22. Sale and leaseback involving real estate

In 2003 Endesa Group sold and leased back certain real estate assets, including its main office building, to a third party, which is not a Special Purpose Entity (SPE) as defined in U.S. GAAP.

Under Spanish GAAP, these assets were removed from the balance sheet and a gain immediately recognized in statement of income.

Under U.S. GAAP, only the gain on the sale in excess of the present value of the minimum lease payments is recognized at the date of the sale. The remaining gain is deferred and amortized in accordance with SFAS No. 28, "Accounting for Sales with Leaseback", i.e. amortized in equal monthly amounts over the lease term because the leaseback have been classified as an operating lease.

23. Extinguishment of debt

In March 2003, certain bondholders of Enersis were granted an option to exchange between November 1, and 15 2003 their bonds in exchange for shares of Enersis at a fixed price of 0.08 euros (Ch 60.4202). Under Spanish GAAP the transaction was accounted for as an exchange of debt for equity with the difference between the carrying amount of the debt and the strike price of the conversion recognized directly in equity a share premium. Under U.S. GAAP the transaction should be recognized as an extinguishment of debt in accordance with APB No. 14, using as reacquisition price of the extinguished debt the value of the common issued or the value of the debt- whichever is more clearly evident, as Enersis stock is publicly trade the fair value of the shares is being considered to be more clearly evident. The average conversion price during November 2003, the conversion period was 0.11 euros (Ch 78) per share.

24. Guarantees

	Millions of euros			
	December 31, 2003			
	Expire within one year	Expire after one year	Total amount outstanding	Maximum potential amount of future payments
Bank guarantees	32	675	707	707
Guarantees between parent and its subsidiaries	<u>1,528</u>	<u>8,953</u>	<u>10,481</u>	<u>10,481</u>
TOTAL	<u>1,560</u>	<u>9,628</u>	<u>11,188</u>	<u>11,188</u>
	Millions of euros			
	December 31, 2004			
	Expire within one year	Expire after one year	Total amount outstanding	Maximum potential amount of future payments
Bank guarantees	131	348	479	479
Guarantees between parent and its subsidiaries	<u>2,146</u>	<u>8,067</u>	<u>10,213</u>	<u>10,213</u>
TOTAL	<u>2,277</u>	<u>8,415</u>	<u>10,692</u>	<u>10,692</u>

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In the course of its business, Endesa Group grants certain guarantees to third parties (most commonly to financial institutions and government agencies). These guarantees—which are given to ensure the proper performance of contractual obligations by Endesa S.A. or its consolidated subsidiaries in the normal course of their business—do not increase Endesa Group’s commitments unless material minority interests exist in the subsidiaries whose obligations are guaranteed.

Endesa Group also grants guarantees relating to the commitments of companies accounted for by the equity method on an exceptional basis.

25. New accounting standards

Statements of Financial Accounting Standards No. 123 (Revised 2004): Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Shared Based Payments (SFAS 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award—the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date, December 15, 2005, and to awards modified, repurchased, or cancelled after that date. SFAS 123R will be effective for our fiscal year ending December 31, 2005. The Company does not anticipate that adoption of this Standard will have a material effect on its financial position, results of operations, or cash flows.

Statements of Financial Accounting Standards No. 128R, Earnings per Share, an amendment to FAS 128

In December 2004, the FASB deferred the issuance of their final standard on earnings per share SFAS No. 128R, Earnings per Share, an amendment to FAS 128. The final standard is expected to be effective in 2005 and will require retrospective application for all prior periods presented. The significant proposed changes to the EPS computation are changes to the treasury stock method and contingent share guidance for computing year-to-date diluted EPS, removal of the ability to overcome the presumption of share settlement when computing diluted EPS when there is a choice of share or cash settlement and inclusion of mandatorily convertible securities in basic EPS. The Company is currently evaluating the proposed provisions of this amendment to determine the impact on its consolidated financial statements.

Statements of Financial Accounting Standards No. 151: Inventory Costs—An Amendment of ARB No. 43, Chapter 4

On November 24, 2004, the FASB issued SFAS No. 151, “Inventory Cost, a revision of ARB No. 43, Chapter 4”. The amendments to SFAS No. 151 aim to improve financial information, stating that the expenses of inactive facilities, transportation costs, manipulation costs and scrap material costs should be recorded in the statement of operation as expenses of the period. The application of fixed cost to inventories should be based on the normal capacity of the production facilities. SFAS No. 151 will be applicable to valuation of Inventories by the end of the first reporting period ending after June 15, 2005. The Company does not anticipate that the adoption of SFAS No. 151 will have a material impact on its financial position, cash flows or results of operations.

Statements of Financial Accounting Standards No. 153: Exchanges of Non-monetary Assets—An Amendment of APB Opinion No. 29

On December 16, 2004, the FASB issued SFAS N0.153, “Exchanges of Non-monetary Assets—an amendment of APB Opinion No. 29”, which amends Accounting Principles Board Opinion No. 29 “Accounting

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for Nonmonetary Transactions”. This amendment is based on the idea that exchange transactions should be valued in accordance with the value of the exchanged assets. The exception made for similar non-monetary productive assets is eliminated and substituted by a more extensive exception related to non-monetary assets with a non-commercial consideration. APB No. 29 stated that the exchange transaction of a productive asset for a similar one should be recorded at the book value of the exchanged asset. SAS No. 153 will be applicable for non-monetary asset exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Company does not anticipate that the adoption of SFAS No. 153 will have a material impact on its financial position, cash flows or results of operations.

Statements of Financial Accounting Standards No. 154: Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the FASB issued FASB Statement 154, “Accounting Changes and Error Corrections”, which replaces APB Opinion 20, “Accounting Changes”, and FASB Statement 3, “Reporting Accounting Changes in Interim Financial Statements”, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

SAB No. 107: Shared Based Payment On March 29, 2005, the SEC released a Staff Accounting Bulletin (SAB) relating to the FASB accounting standard for stock options and other share-based payments. The interpretations in SAB No. 107, “Share-Based Payment,” (SAB 107) express views of the SEC Staff regarding the application of SFAS No. 123 (revised 2004), “Share-Based Payment “(Statement 123R). Among other things, SAB 107 provides interpretive guidance related to the interaction between Statement 123R and certain SEC rules and regulations, as well as provides the Staff’s views regarding the valuation of share-based payment arrangements for public companies. The Company does not anticipate that adoption of SAB 107 will have any effect on its financial position, results of operations or cash flows.

FIN No. 46—Consolidation of Variable Interest Entities—an interpretation of ARB No. 51

In January 2003, the Financial Accounting Standards Board (“FASB”) released Interpretation No. 46 Consolidation of Variable Interest Entities (“FIN 46”) which requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (“FIN 46R”) to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financials statements for periods ending after March 14, 2004.

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation (“FIN”) No. 47, “Accounting for Conditional Asset Retirement Obligations,” which clarifies the term conditional asset retirement obligation as used in SFAS No. 143, “Accounting for Asset Retirement Obligations,” as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company is currently evaluating the impact of adopting this interpretation.

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EITF 04-1: Accounting for Preexisting Relationships between the Parties to a Business Combination

This Issue addresses the accounting for preexisting relationships between the parties to a business combination. The consensus in this Issue should be applied to business combinations consummated and goodwill impairment tests performed in reporting periods beginning after October 13, 2004. The application of this new accounting literature by Endesa had no impact on its financial position, cash flows or results of operations.

EITF Issue No. 01-08—Determining Whether an Arrangement Contains a Lease

In May 2003, the EITF reached consensus in EITF Issue No. 01-08 to clarify the requirements of identifying whether an arrangement should be accounted for as a lease at its inception. The guidance in the consensus is designed to mandate reporting revenue as rental or leasing income that otherwise would be reported as part of product sales or service revenue. EITF Issue No. 01-08 requires both parties to an arrangement to determine whether a service contract or similar arrangement is, or includes, a lease within the scope of SFAS No. 13, "Accounting for Leases." The application of this EITF has not had any effect on The Company's financial position, cash flows or results of operations.

EITF Issue No. 03-11—Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes

In July 2003, the EITF reached consensus in EITF Issue No. 03-11 that determined whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis is a matter of judgment that depends on the relevant facts and circumstances and the economic substance of the transaction. In analyzing the facts and circumstances, EITF Issue No. 99-19, and Opinion No. 29, "Accounting for Nonmonetary Transactions," should be considered. EITF Issue No. 03-11 is effective for transactions or arrangements entered into after September 30, 2003. The application of this EITF has not had any effect on The Company's financial position, cash flows or results of operations.

26. Disclosures about the fair value of financial instruments and about derivative financial instruments

Statement of Financial Accounting Standard No. 107 (SFAS No. 107) requires that the Company disclose the estimated fair values of its financial instruments as of December 31, 2004 and 2003. The following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

1. Cash, short-term financial investments, accounts receivable and payable, and other short-term debt and credit-

The carrying values reflected in the consolidated financial statements are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

2. Financial investments in non-consolidated companies-

The fair value of the long-term investment securities of the companies not consolidated as of December 31, 2004 and 2003, is as follows:

-Listed companies-

Listed companies were valued at their market price on the last trading day in 2004 and 2003. As of December 31, 2004 and 2003, the market value of available-for-sale securities, based on the stock market price was as follows:

	Millions of euros		
	Cost Basis	Gross Unrealized Gains/(Losses)	Fair Value
2003	110	144	254
2004	20	47	67

In 2004 and 2003, none of the investments in available-for-sale securities was more than 12 months in a continuing unrealized loss position.

- Unlisted companies-

None of the investments in the companies included under this caption has a quoted market price. In view of the small volume of these investments and the immaterial results to be derived, there is little cost benefit of performing a valuation based on an estimate of future cash flows discounted at market interest rates for investments of this type.

Due to uncertainties in the determination of future cash flows from these investments, historic cost remains the best estimate of fair value, unless circumstances indicate that the carrying values have been impaired.

3. Loans to companies accounted for by the equity method and other loans-

The fair value is the book value since they accrue interest cost at market rates.

4. Debentures and bonds-

Since all the debentures and bonds are listed, the fair values reflect the market price on the last trading day in 2004 and 2003.

5. Commercial paper-

Commercial paper notes were discounted to present value on the basis of the market interest rates borne by these securities as of December 31, 2004 and 2003.

6. Fixed-interest loans and credits-

The fair value of fixed-interest loans and credits was estimated by discounting at the market interest rate for similar transactions arranged at 2004 and 2003 year-end.

7. Variable-interest loans and credits-

Since these debts are valued at prevailing market interest rates, their fair value as of December 31, 2004 and 2003, is the same as their carrying amounts.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

8. Other long-term debt-

This caption includes various long-term debt items, principally guarantees received, which, because of their nature, are not transferable and whose fair value is the same as their book value.

9. Derivative financial instruments-

The fair value of derivatives is determined based on quotes received from banks for instruments with similar terms and remaining maturities.

Following is a summary of the carrying amounts and fair value of the financial instruments as of December 31, 2004 and 2003:

	Millions of Euros			
	2004		2003	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Cash	304	304	183	183
Short-term financial investments	2,205	2,205	2,139	2,139
Accounts receivable	4,465	4,465	4,096	4,096
Trade accounts payable	2,970	2,970	2,385	2,385
Payable to companies carried by the equity method	24	24	18	18
Other non trade payable	2,077	2,077	1,840	1,840
Financial investments (non consolidated):				
Listed companies	20	67	110	254
Unlisted companies	375	375	573	573
Loans to companies carried by the equity method Controlling company shares	47	47	232	232
Other loans	996	996	1,194	1,194
Short and long term debt:				
Debentures and bonds	10,123	11,083	11,138	11,385
Commercial paper	1,702	1,701	888	888
Cross Currency Swaps	(221)	(209)	(61)	(29)
Payable to credit entities:				
Fixed interest loans	895	918	1,008	1,063
Variable interest loans	5,123	1,597	5,018	5,018
Other accounts payable	1,039	1,039	1,209	1,209
Capital payment payable	2	2	10	10
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative financial instruments:				
Interest rate SWAPS and FRAs agreement	12,699	(214)	13,842	92
Foreign currency futures and options	344	(0)	551	(0)
Cap and collar contracts	2,275	3	4,673	(51)

Endesa, S.A. and Subsidiaries

Notes to 2004 and 2003 consolidated financial statements—(Continued)

27. Classification differences and other—as restated

Subsequent to the issuance of Endesa S.A. and its Subsidiaries' 2004 consolidated financial statements, Endesa Group Management determined that under U.S. GAAP certain sales and purchases of electricity at the same price and time through the market agent (OMEL), pass-through costs and gas exchanges from business in Spain were being disclosed on a gross basis instead of net basis. As a result, this note has been restated in order to properly include the following classification difference disclosure.

Net of sales and purchases of energy

Under Spanish GAAP certain sales and purchases of electricity at the same price and time through the market agent (OMEL), pass-through costs and gas exchanges from the Company's business in Spain are recorded on a gross basis as Net Sales and Operating Expenses at consolidated level as a common practice of the Industry. Under US GAAP, following the guidance in the EITF Issue No. 99-19 *Reporting Revenue Gross as a Principal versus Net*, such sales and operating expenses should be recorded on a net basis.

Therefore, under US GAAP our Net Sales and Operating Expenses would be reduced by 4,421 4,224 and 4,339 million of euros in 2002, 2003 and 2004, respectively. This difference has no impact in our consolidated net income or shareholder's equity under U.S. GAAP.

Nuclear Fuel

As disclosed in Note 4, under Spanish GAAP, the Company has classified Nuclear Fuel in Inventory that under U.S. GAAP constitutes a depreciable asset. Consequently, under U.S. GAAP, €216 million and €217 million should be reclassified from inventory to long-term asset as of December 31, 2004 and 2003, respectively. The related U.S. GAAP depreciation expense of €88 million, €90 million and €93 million for the years ended December 31, 2004, 2003 and 2002, respectively, is reclassified but remains unchanged.

Extraordinary Income (Expense) and Other Income Classification Differences

As described in Note 18, in 2004, 2003 and 2002, under Spanish GAAP the Company recorded as non-operating results items that under U.S. GAAP would be recorded as operating revenues (expenses). These reclassifications do not affect the reconciliation of net income and stockholders' equity.

Additionally the "Capitalized expenses" recorded in the consolidated statements of income under Spanish GAAP, should be reduced from the respective expenses instead of income.

Management Estimates

The preparation of financial statements in conformity with Spanish GAAP as well as the additional note on differences between Spanish GAAP and U.S. GAAP and other required disclosures (see Note 26) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidation principles

The Property Associations in which the Group has material ownership interests were proportionally consolidated in the consolidated financial statements (see note 3-b). Regarding our Property Associations, we affirm they represent an undivided interest held in specific assets, owned by various partners, we are

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

proportionally liable for each liability and they are not separate legal entities. We consider that the analysis of the joint control of these assets is not applicable due to the specific characteristic of such assets. Additionally, as requested by SAB Topic 10-C, the amounts integrated in our financial statements are disclosed below:

	Million of euros			
	Amounts integrated in Endesa's assets			
	Utility plant in use	Accumulated depreciation	Plant under construction	Endesa's share
CN. Asco I	2,364	(1,505)	16.08	100%
CN Asco II	2,112	(1,273)	15.68	85%
CN Vandellos II	2,390	(1,370)	13.83	72%
CN Almaraz I	374	(244)	5.90	36%
CN Almaraz II	367	(218)	6.34	36%
CC Anllares	145	(117)	2.13	33%
TOTAL	<u>7,752</u>	<u>(4,727)</u>	<u>59.96</u>	

Under Spanish GAAP, the Company uses the proportional consolidation method for its investment in Nuclenor, S.A.

As U.S. GAAP does not permit proportional consolidation, this company should have been accounted for using the equity method. This difference has no effect on Net Income or Shareholders' Equity. The amounts proportionally consolidated by the Company are summarized below:

	Millions of Euros		
	Years ended December, 31		
	2002	2003	2004
Total fixed and other non-current assets	73	72	74
Total current assets	67	41	42
Total assets	<u>140</u>	<u>113</u>	<u>116</u>
Total non-current liabilities	27	98	29
Total current liabilities	41	15	14
Total liabilities	<u>68</u>	<u>113</u>	<u>43</u>
	Years ended December, 31		
	2002	2003	2004
Operating Revenues	82	62	63
Operating Expenses	47	44	48
Net Operating Revenue	<u>35</u>	<u>18</u>	<u>15</u>
Cash flow from operating activities	36	23	19
Cash flow from investing activities	(6)	(8)	(7)
Cash flow from financing activities	<u>(30)</u>	<u>(11)</u>	<u>(12)</u>
Net change in cash and cash equivalents	<u>—</u>	<u>4</u>	<u>—</u>

As discussed in Note 3(b)—Basis of Presentation and Consolidation Principles, we do not consolidate some of our subsidiaries because as a whole they were not considered material in respect of the true and fair view of

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

the consolidated financial statements. Under Spanish GAAP and U.S. GAAP these subsidiaries were valued at the lower of cost or market. did not consolidate these subsidiaries under U.S. GAAP, on the basis that consolidating these subsidiaries would have a “de minimis” impact, individually and in the aggregate. As of December 31, 2004 these entities represented 0.5% of our consolidated assets, 1.5% of our consolidated revenues and 0.4% of our consolidated income from operations.

Classification of transaction cost

Under Spanish GAAP, costs incurred to issue debt are included in the initial measurement of the underlying transactions.

Under US GAAP, issue costs are reported in the balance sheet as deferred charges.

Deconsolidation of Endesa Capital Finance, LLC

In March 2003, Endesa Group created a variable interest entity (“VIE”), Endesa Capital Finance, LLC (“Endesa Capital Finance”) to issue €1,500 million of preferred stock (see Note 13). As discussed above, the Financial Accounting Standards Board (“FASB”) released Interpretation No. 46, Consolidation of Variable Interest Entities (“FIN 46R”), which requires that all primary beneficiaries of variable interest entities consolidate that entity. FIN 46R is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. According to this Interpretation, Endesa Capital Finance is a VIE and Endesa Group is not the primary beneficiary. Accordingly, under U.S. GAAP, Endesa Group should not consolidate Endesa Capital Finance.

Therefore, the €1,500 million of preferred stock issued by Endesa Capital Finance that is classified as minority interests under Spanish GAAP should be reclassified to long-term debt in the Consolidated Balance Sheet under U.S. GAAP.

Finally, the €60 million that is classified as income (loss) attributed to minority interests in the Statement of Income should be reclassified to financial expenses.

28. Comprehensive Income

Total Comprehensive income under U.S. GAAP for the years ended December 31, 2004, 2003 and 2002 was €1,470 million, €1,426 million and €192 million, respectively. The following is a Statement of Comprehensive Income for the years ended December 31, 2004, 2003 and 2002:

	Millions of euros		
	2002	2003	2004
Net Income according to U.S. GAAP	1,545	1,419	1,576
Currency Translation Adjustment (*)	(1,423)	193	64
Translation differences related to disposals (*)	—	—	—
Available-for-sale securities, net of tax effect (**)	(69)	118	(63)
Derivative instruments:	—	—	—
Deferred revenues on SFAS No. 133 hedge net of tax	139	(304)	(107)
Comprehensive (loss)/Income	192	1,426	1,470

(*) There is no tax effect on translation adjustments

(**) Tax effect of 35%

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The table below shows changes in Accumulated Other Comprehensive Income:

	In millions of Euros			
	Accumulated Other Comprehensive Income (Loss) Net of Tax			
	Unrealized Gains (Losses) on Securities	Foreign Currency	Derivatives	Total
Balance at December 31, 2002	<u>(24)</u>	<u>(2,153)</u>	<u>310</u>	<u>(1,867)</u>
Unrealized gains (losses) on securities for the period	113	—	—	113
Reclassification to net income for gain (losses) realized from disposal of securities	5	—	—	5
Reclassification to net income for gain (losses) realized from other than temporary impairments of securities	—	—	—	—
Foreign currency period change, net of disposals	—	193	—	193
Derivatives period change, net of reclassifications to net income	—	—	(304)	(304)
Balance at December 31, 2003	<u>94</u>	<u>(1,960)</u>	<u>6</u>	<u>(1,860)</u>
Unrealized gains (losses) on securities for the period	32	—	—	32
Reclassification to net income for gain (losses) realized from disposal of securities	—	—	—	—
Reclassification to net income for gain (losses) realized from other than temporary impairments of securities	(95)	—	—	(95)
Foreign currency period change, net of disposals	—	64	—	64
Derivatives period change, net of reclassifications to net income	—	—	(107)	(107)
Balance at December 31, 2004	<u>31</u>	<u>(1,946)</u>	<u>(101)</u>	<u>(1,966)</u>

29. Valuation and Qualifying Accounts

The movement in allowance for doubtful accounts is as follows:

	Millions of euros		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Balance at beginning of period	353	247	238
Additions:			
Charged to operating expenses	120	97	83
Charged to other accounts	—	—	—
Deductions	(226)	(106)	(71)
Balance at end of period	<u>247</u>	<u>238</u>	<u>250</u>

30. Consolidated statements of cash flows

Note 24 includes a statement of sources and applications of funds prepared according to Spanish GAAP. Under U.S. GAAP, SFAS No. 95, Statements of cash flow, requires of cash flows to be presented in accordance with U.S. GAAP format as part of a full set of financial statements.

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

The consolidated statements of cash flows of Endesa Group for the years ended December 31, 2004, 2003 and 2002 prepared in accordance with U.S. GAAP format and classification is presented below. For purposes of this statement, short-term investments are considered to be cash equivalents.

	<u>Amounts in Millions of euros</u>		
	<u>Years Ended December 31,</u>		
	<u>2004</u>	<u>2003 (*)</u>	<u>2002</u>
Cash flows from operating activities:			
Net income	1,379	1,312	1,270
Adjustment to reconcile net income to net cash provided by operations			
Depreciation and amortization	1,955	1,895	2,416
Provisions for pensions and third-party liabilities	219	736	904
Losses on disposal of fixed assets and others	(150)	(799)	(1,123)
Deferred taxes	222	463	440
Income allocated to minority interest	454	565	(136)
Equity in the income of companies carried by equity	(53)	(6)	133
Other non-cash items, net	(154)	(351)	381
Inventories	(52)	69	(20)
Accounts receivable	(102)	(279)	146
Trade accounts payable	484	519	(264)
Prepaid expenses	—	12	(16)
Settlements of provisions	(454)	(414)	(640)
Net cash provided by operations	<u>3,748</u>	<u>3,722</u>	<u>3,491</u>
Cash flows from investing activities:			
Capital expenditures	(2,262)	(2,050)	(2,084)
Divestures from sales of property plant in equipment and investment	407	1,825	2,499
Acquisition of financial investments	(430)	(458)	(1,366)
Expenses and interest capitalized	—	(132)	(288)
Loan extinguishment	274	711	399
Subsidies	159	295	309
Other property and investments	16	(113)	(93)
Net cash used in investing activities	<u>(1,836)</u>	<u>78</u>	<u>(624)</u>
Cash flows from financing activities:			
Issuance of long-term debt	1,363	6,585	3,287
Dividends paid in cash, including interim dividend	(935)	(866)	(839)
Repayments of long-term debt	(455)	(8,872)	(6,095)
Contribution of minority interest	—	2,153	—
Variations in financial liabilities	(1,720)	(2,606)	1,842
Other financing activities	44	111	73
Debt/Equity issuance costs	—	(171)	—
Net cash used by financing activities	<u>(1,703)</u>	<u>(3,666)</u>	<u>(1,732)</u>
Increase (Decrease) in cash and cash equivalents	<u>209</u>	<u>134</u>	<u>1,135</u>
Cash and cash equivalents at the beginning of year	2,322	2,188	1,053
Variations in cash and equivalents for exchange rate	(22)	—	—
Cash and cash equivalents at the end of year	<u>2,509</u>	<u>2,322</u>	<u>2,188</u>

(*) For a better presentation purposes, the company has registered some reclassifications in the 2003 and 2002 figures in order to reflect the same concepts as included in 2004. The company has included debt issuance

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

costs for an amount of €171 million for December 31, 2003 as part of cash flows from financing activities instead of cash flow from operation. In addition, the line “variations in working capital for additions” included in our 2003 and 2002 20-F, which represented variations in cash and cash equivalents due to acquisition or disposals of interests in subsidiaries and changes in consolidation, has been reclassified to be netted from the amount of the acquisitions/disposals reflected in the cash flow from investing activities (shown as “other property and investments”) Both reclassification did not have any material effect in our cash flow or cash flow from operation.

Supplementary information required by SFAS No. 95 is as follows:

Cash paid during the period for:

	Amounts in millions			
	Years Ended December 31,			
	Euros			US Dollars
	2002	2003	2004	2004
Interest, net of amount capitalized	1,322	1,316	1,459	1,797
Income taxes	103	134	702	865

31. Restricted Net Assets

Some of Endesa’s subsidiaries are subject to debt agreements that limit the cash dividends and loans that may be distributed to us. At December 31, 2004, our total restricted net assets for our consolidated subsidiaries and our participation in undistributed earnings of our equity investees were €1,417 million and €6 million, respectively.

32. Segment disclosures

Description of the types of products and services from which each reportable segment derives its revenues:

Endesa Group manages and evaluates its operations in four reportable segments: Domestic Electricity Businesses, Latin America Electricity Businesses, European Electricity Business and Other Businesses. The European Electricity Business arises in year 2002 when Endesa Europa (subsidiary of Endesa) starts its activity.

The Domestic Electricity Business includes generation (coal, nuclear, hydroelectric and fuel oil and gas generation facilities), transmission, distribution and sales to customers of electricity. This segment also includes distribution and supply of Natural Gas, and renewable energies and cogeneration.

The Latin America Electricity Businesses is involved in the generation, transmission, distribution and supply of electricity in six countries in Latin America.

The European Electricity Business includes the activities of generation (Italy, France, Portugal and Northern Africa), distribution (Northern Africa) and supply of electricity. This activity begins since 2002 when Endesa Holding Italia, S.R.L. is full consolidated under Spanish GAAP and there is a meaningful presence in Europe (outside Spain).

The Other Businesses includes the related business (water distribution and treatment), and the non-core business (basically telecommunications and new technologies).

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Notes to 2004 and 2003 consolidated financial statements—(Continued)

Prior to the fiscal year ended December 31, 2002, Endesa Group referred to its Latin American Electricity Business as the International Electricity Business; however, the results of operations of the International Electricity Business did not reflect any significant operations outside of Latin America and therefore, the Management believes that the comparison between the results of operations of the Latin American Electricity Business in 2002 is directly comparable with the results of operations of the International Electricity Business in 2001. There is not any possibility of comparison between the results of operations of the European electricity business in 2002 and the results in 2001 because Endesa Holding Italia, S.R.L. was not consolidated.

Measurement of segment profit or loss and segment assets:

The accounting policies of the segments are the same as those described in the summary of accounting policies in Note 4. The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

Factors management used to identify the Group's reportable segments:

Each segment of the Group is managed separately because each offers different products or serves different markets and at the same time this discloses clearly the geographical classification of its activities with the exception of "Other business". Other Businesses includes the energy-related business and the non-core business mainly located in Spain with the exception of Smartcom, a Chilean telecommunications company. The geographical disclosure of the Other Business segment is as follows:

	2002			2003			2004		
	Other Business			Other Business			Other Business		
	Spain	Chile	Total	Spain	Chile	Total	Spain	Chile	Total
Operating Revenues	130	—	130	83	—	83	21	—	21
Operating Expenses:	145	—	145	85	—	85	26	—	26
Purchases	82	—	82	48	—	48	2	—	2
Personnel Expenses	20	—	20	11	—	11	8	—	8
Depreciation and amortization	8	—	8	5	—	5	7	—	7
Variation in Operating Provisions	2	—	2	1	—	1	(2)	—	(2)
Other Operating Expenses	33	—	33	20	—	20	11	—	11
Operating Income	(15)	—	(15)	(2)	—	(2)	(5)	—	(5)
Financial Revenues	20	—	20	67	—	67	71	—	71
Financial Expenses	78	—	78	71	—	71	74	—	74
Financial Income (Loss), Net	(58)	—	(58)	(4)	—	(4)	(3)	—	(3)
Income (Loss) from Associated Companies	(149)	(53)	(202)	8	(34)	(26)	15	10	25
Amortization of Goodwill	(297)	338	41	23	4	27	32	4	36
Non-Operating Income (Loss), Net	(270)	—	(270)	0	—	0	128	—	128
Consolidated Income (Loss) before Taxes	(195)	(391)	(586)	(21)	(38)	(59)	103	6	109
Corporate Income Tax	(63)	—	(63)	(16)	—	(16)	14	—	14
Minority Interests	2	—	2	4	—	4	2	—	2
Income (Loss) attributable to the Parent Company	(134)	(391)	(525)	(9)	(38)	(47)	87	6	93

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The following table presents information regarding the Company's business segments for the year ended December 31, 2004, 2003 and 2002.

Prior to the year ended December 31, 2004, the results of operations of our cogeneration and renewable energies business were included within "Other Businesses". For the year ended December 31, 2004, the results of operations of our cogeneration and renewable energies business are included within "Domestic Electricity Business". Solely for purposes of the information regarding the Company's business segments for the fiscal year ended December 31, 2004 versus the fiscal years ended December 31, 2003 and 2002, we have modified the results of operations of "Domestic Electricity Business" and "Other Businesses" for the fiscal years ended December 31, 2003 and 2002 to reflect the reclassification and make such results of operations comparable to those for the year ended December 31, 2004. The above modification did not have any material impact on our segment information individually or in aggregate and no effect on our consolidated results of operations. We intend to continue to use this presentation in the future because it more accurately reflects the way in which management evaluates the performance of our different lines of business.

In addition, in the year ended December 31, 2002, the results of operations of our gas business were included within "Other Businesses". For the years ended December 31, 2003 and 2004, the results of operations of our gas business were included within "Domestic Electricity Business". Solely for purposes of the information regarding the Company's business segments for the fiscal year ended December 31, 2004 versus the fiscal years ended December 31, 2003 and 2002, we have modified the results of operations of "Domestic Electricity Business" and "Other Businesses" for the fiscal year ended December 31, 2002 to reflect the reclassification and make such results of operations comparable to those for the years ended December 31, 2003 and 2004. The above modification did not have any material impact on our segment information individually or in aggregate and no effect on our consolidated results of operations. We intend to continue to use this presentation in the future because it more accurately reflects the way in which management evaluates the performance of our different lines of business.

	2004				Total
	Domestic Electricity Business	International Electricity Business	Europe Electricity Business	Other Business	
Operating revenues	11,299	4,140	2,605	21	18,065
Operating expenses	9,627	2,959	2,211	26	14,823
Purchases	6,740	1,732	1,740	2	10,214
Personnel expenses	888	277	115	8	1,288
Depreciation and amortization	1,054	419	163	7	1,643
Variation in operating provisions	28	24	2	(2)	52
Other operating expenses	917	507	191	11	1,626
Operating income (loss)	1,672	1,181	394	(5)	3,242
Financial revenues	42	373	6	71	492
Financial expenses	567	699	79	74	1,419
Financial income (loss), net	(525)	(326)	(73)	(3)	(927)
Income (loss) from associated companies	33	16	10	25	84
Amortization of goodwill	—	186	90	36	312
Non-operating income (loss), net	(131)	108	41	128	146
Consolidated income before taxes	1,049	793	282	109	2,233
Corporate income tax	109	173	104	14	400
Minority interests	69	350	33	2	454
Income attributable to the controlling company	871	270	145	93	1,379

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	2003				Total
	Domestic Electricity Business	International Electricity Business	Europe Electricity Business	Other Business	
Operating revenues	10,901	3,623	2,037	83	16,644
Operating expenses	9,094	2,552	1,769	85	13,500
Purchases	6,356	1,436	1,469	48	9,309
Personnel expenses	837	260	78	11	1,186
Depreciation and amortization	1,072	413	116	5	1,606
Variation in operating provisions	36	20	—	1	57
Other operating expenses	793	423	106	20	1,342
Operating income (loss)	1,807	1,071	268	(2)	3,144
Financial revenues	162	680	6	67	915
Financial expenses	648	880	51	71	1,650
Financial income (loss), net	(486)	(200)	(45)	(4)	(735)
Income (loss) from associated companies	16	18	22	(26)	30
Amortization of goodwill	—	171	91	27	289
Non-operating income (loss), net	381	(100)	(4)	—	277
Consolidated income before taxes	1,718	618	150	(59)	2,427
Corporate income tax	441	79	46	(16)	550
Minority interests	54	455	52	4	565
Income attributable to the controlling company	1,223	84	52	(47)	1,312

	2002				Total
	Domestic Electricity Business	International Electricity Business	Europe Electricity Business	Other Business	
Operating revenues	11,264	4,084	1,760	130	17,238
Operating expenses	9,085	2,816	1,610	145	13,656
Purchases	6,501	1,508	1,334	82	9,425
Personnel expenses	835	317	79	20	1,251
Depreciation and amortization	1,108	467	113	8	1,696
Variation in operating provisions	(21)	20	1	2	2
Other operating expenses	662	504	83	33	1,282
Operating income (loss)	2,179	1,268	150	(15)	3,582
Financial revenues	136	492	3	20	651
Financial expenses	623	1,521	63	78	2,285
Financial income (loss), net	(487)	(1,029)	(60)	(58)	(1,634)
Income (loss) from associated companies	85	7	17	(202)	(93)
Amortization of goodwill	7	215	92	41	355
Non-operating income (loss), net	818	(455)	(22)	(270)	71
Consolidated income before taxes	2,588	(424)	(7)	(586)	1,571
Corporate income tax	525	39	(64)	(63)	437
Minority interests	8	(182)	36	2	(136)
Income attributable to the controlling company	2,055	(281)	21	(525)	1,270

Revenues from Compañía Operadora del Mercado Español de Electricidad, S.A. (OMEL) of Endesa Group's Domestic Electricity Business, represents €3,090 million and €3,220 million of Endesa Group's consolidated revenues as of December 31, 2004 and 2003, respectively. The total operating income (loses) with OMEL represents €(180) million and (€74) million for the years ended December 31, 2004 and 2003, respectively.

Neither we nor any of our segments depends on any single customer, small group of customers, or government for more than 10% of its sales.

CERTIFICATION

I, Rafael Miranda Robredo, certify that:

1. I have reviewed this annual report on Form 20-F/A of Endesa, S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 28, 2005

By: _____ /s/ RAFAEL MIRANDA ROBREDO
Name: **Rafael Miranda Robredo**
Title: **Chief Executive Officer**

CERTIFICATION

I, José Luis Palomo Alvarez, certify that:

1. I have reviewed this annual report on Form 20-F/A of Endesa, S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: October 28, 2005

By: /s/ JOSÉ LUIS PALOMO ALVAREZ
Name: **José Luis Palomo Alvarez**
Title: **Chief Financial Officer**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Annual Report on Form 20-F/A for the year ended December 31, 2004 (the "Annual Report") for the purposes of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Rafael Miranda Robredo, the Chief Executive Officer and José Luis Palomo Alvarez, the Chief Financial Officer of Endesa, S.A., each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Endesa, S.A.

Date: October 28, 2005

By: /s/ RAFAEL MIRANDA ROBREDO

Name: **Rafael Miranda Robredo**
Title: **Chief Executive Officer**

By: /s/ JOSÉ LUIS PALOMO ALVAREZ

Name: **José Luis Palomo Alvarez**
Title: **Chief Financial Officer**