Endesa Capital Finance, L.L.C.

(An Indirect Wholly Owned Subsidiary of Endesa, S.A.)

Financial Statements for the Period February 21, 2003 (Date of Formation) to December 31, 2003 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Securityholders of
Endesa Capital Finance, L.L.C.

We have audited the accompanying balance sheet of Endesa Capital Finance, L.L.C (the "Company"), an indirect wholly owned subsidiary of Endesa, S.A., as of December 31, 2003 and the related statements of income, securityholders' equity, and of cash flows for the period February 21, 2003 (date of formation) to December 31, 2003. 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 auditing standards generally accepted in the 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2003, and the results of its operations and its cash flows for the period February 21, 2003 (date of formation) to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 27, 2004

ENDESA CAPITAL FINANCE, L.L.C.
(An Indirect Wholly Owned Subsidiary of Endesa, S.A.)

BALANCE SHEET
DECEMBER 31, 2003 (IN EUROS)

ASSETS

CURRENT ASSETS:	
Cash	2,067
Accrued interest receivable	375,000
Short-term loan receivable from International Endesa B.V.	1,747,024
Total current assets	2,124,091
LOAN TO INTERNATIONAL ENDESA B.V., Net of unearned loan fees of €103,785,000	1,396,215,000
TOTAL	1,398,339,091

LIABILITIES

Preferred dividends payable	333,333
Liquidity fee payable	16,666
Guaranty fee payable	16,666
Accounts payable	7,324
Total liabilities	373,989
Commitments and contingencies	
SECURITYHOLDERS' EQUITY:	
Preferred capital securities; noncumulative, 60,000,000 securities issued and outstanding as of December 31, 2003, authorized liquidation preference of €25 per security with an aggregate initial liquidation preference of €1.5 billion, net of issuance costs of €111,574,581	1,388,425,419
Common capital securities; 10 securities issued and outstanding	92
Retained earnings	9,539,591
Total securityholders' equity	1,397,965,102
TOTAL	1,398,339,091

The accompanying notes to financial statements are an integral part of these financial statements.

ENDESA CAPITAL FINANCE, L.L.C.
(An Indirect Wholly Owned Subsidiary of Endesa, S.A.)

STATEMENT OF INCOME
FOR THE PERIOD FEBRUARY 21, 2003 (DATE OF FORMATION)
TO DECEMBER 31, 2003 (IN EUROS)

REVENUES:	
Interest income from Loan to International Endesa B.V.	51,000,000
Loan fee income	8,415,000
Other interest income	49,902
Total revenues	59,464,902
OPERATING EXPENSES:	
Liquidity fees	2,266,666
Guaranty fees	2,266,666
Other	58,646
Total operating expenses	4,591,978
NET INCOME	54,872,924
PREFERRED DIVIDENDS	45,333,333
NET INCOME ATTRIBUTABLE TO COMMON SECURITYHOLDER	9,539,591

The accompanying notes to financial statements are an integral part of these financial statements.

ENDESA CAPITAL FINANCE, L.L.C.
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STATEMENT OF SECURITYHOLDERS’ EQUITY FOR THE PERIOD FEBRUARY 21, 2003 (DATE OF FORMATION) TO DECEMBER 31, 2003 (IN EUROS)

	Common Capital Securities	Preferred Capital Securities	Retained Earnings	Total
BALANCE—February 21, 2003 (date of formation)	-	-	-	-
Proceeds from the issuance of common capital securities	92	-	-	92
Proceeds from the issuance of preferred capital securities	-	1,500,000,000	-	1,500,000,000
Costs of issuing preferred capital securities		(111,574,581)		(111,574,581)
Net income	-	-	54,872,924	54,872,924
Preferred dividends	-	-	(45,333,333)	(45,333,333)
BALANCE—December 31, 2003	92	1,388,425,419	9,539,591	1,397,965,102

The accompanying notes to financial statements are an integral part of these financial statements.

ENDESA CAPITAL FINANCE, L.L.C.
(An Indirect Wholly Owned Subsidiary of Endesa, S.A.)

STATEMENT OF CASH FLOWS
FOR THE PERIOD FEBRUARY 21, 2003 (DATE OF FORMATION) TO DECEMBER 31, 2003 (IN EUROS)

CASH FLOWS FROM OPERATIONS:	
Net income	54,872,924
Adjustments to reconcile net income to cash provided by operations:	
Accretion of loan fee income	(8,415,000)
Changes in operating assets and liabilities:	
Increase in accrued interest receivable	(375,000)
Increase in liquidity fees payable	16,666
Increase in guaranty fees payable	16,666
Increase in accounts payable	7,324
Cash provided by operations	46,123,580
CASH FLOWS FROM INVESTING ACTIVITIES:	
Loan to International Endesa B.V.	(1,387,800,000)
Short-term loan receivable from International Endesa B.V.	(1,747,024)
Cash used in investing activities	(1,389,547,024)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of common capital securities	92
Proceeds from issuance of preferred capital securities	1,500,000,000
Costs of issuing preferred capital securities	(111,574,581)
Payment of dividends	(45,000,000)
Cash provided by financing activities	1,343,425,511
INCREASE IN CASH	2,067
CASH—Beginning of period	-
CASH—End of period	2,067
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:	
Accrued dividends on preferred capital securities	333,333
Up-front loan fees deducted from loan disbursement	112,200,000

The accompanying notes to financial statements are an integral part of these financial statements.

1. GENERAL

Endesa Capital Finance, L.L.C. (the "Company") was formed under the laws of the State of Delaware on February 21, 2003. The Company is a wholly owned subsidiary of International Endesa B.V. (the "Parent") which, in turn, is a wholly owned subsidiary of Endesa, S.A. ("Endesa"). Endesa is a Spanish corporation that is involved in the generation, transmission, marketing, and distribution of electricity in Spain, Europe and Latin America. The Company was established for the purpose of issuing Preferred Capital Securities and Common Capital Securities and to use substantially all of the proceeds thereof to enter into loan agreements with the Parent or other non-U.S. affiliates of Endesa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America. The Company's functional currency and reporting currency is the Euro. The following summarizes the more significant of those policies:

Cash—Cash represents cash and cash equivalents with original maturities of three months or less.

Revenue Recognition—Interest income is recognized as earned, based upon the principal amount outstanding on an accrual basis. Loan fees are recognized into income using a method which approximates the effective interest method over the life of the related loan.

Fair Value of Financial Instruments—Presented below is a brief summary of the significant management estimates relating to the fair value of financial instruments:

- *Cash*—The recorded amounts of cash approximate fair value due to the short-term nature of these instruments.

- *Loan to the Parent*—The recorded amount of the loan approximates fair value due to the periodic repricing of the loan's interest rate to a rate that approximates market interest rates.

New Accounting Pronouncements—In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN') 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of Statement of Financial Accounting Standards ("SFAS") Nos. 5, 57 and 107 and rescission of FASB Interpretation No. 34*. The interpretation requires certain disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. The interpretation requires footnote disclosures beginning in year-end financial statements ending after December 15, 2002. The interpretation also requires the recognition of a liability for the fair value of guarantees entered into after December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company's financial statements.

On May 15, 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.* SFAS No. 150 was effective May 31, 2003 for all new and modified financial instruments and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires that those instruments be classified as liabilities (or assets in some circumstances). The adoption of SFAS No. 150 did not have a material impact on the Company's results of operations or financial condition.

Estimates and Assumptions—Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

3. LOAN TO THE PARENT

On March 28, 2003, the Company issued a loan of €1.5 billion to the Parent. The note, which matures on March 28, 2013, bears interest at a rate equal to the three-month Euribor rate plus a margin (.50%), provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. Interest shall be due and payable quarterly in arrears on March 28, June 28, September 28, and December 28 commencing June 28, 2003. The effective interest rate of the loan was 4.50% as of December 31, 2003. In connection with this loan, the Company deducted an up-front loan fee of €112,200,000 from the loan amount to be disbursed to the Parent. The Company recognized loan fee income of €8,415,000 representing the amortization of the up-front loan fee during the period February 21, 2003 (date of formation) to December 31, 2003. The loan to the Parent is presented net of unamortized up-front fees of €103,785,000 as of December 31, 2003.

On March 26, 2003, the Company extended a €10 million Short Term Credit Facility (the "Credit Facility") to the Parent. The Credit Facility bears interest equal to the average of the three-month and six-month Euribor rates plus a margin (.10%). The maturity date of the facility is March 26, 2004, at which time the Credit Facility will be extended unless written notice is provided by either party. As of December 31, 2003, the Company had a loan receivable of €1,747,024 from the Parent pursuant to the Credit Facility.

4. COMMON CAPITAL SECURITIES

The Company has issued ten Common Capital Securities to the Parent. Common Capital Securities are allocated 100% of the net losses of the Company (in the event such should occur) and all gains and losses resulting from the disposition of assets from the Company. The net profits of the Company are allocated to the Preferred Capital Securities until the amount so allocated equals the amount of Preferred Capital Securities dividends declared for the year. Any net profits in excess of the amount allocated to the Preferred Capital Securities are allocated to the Common Capital Securities.

5. PREFERRED CAPITAL SECURITIES

The Company is authorized to issue and sell Preferred Capital Securities having an aggregate initial liquidation preference of €2 billion. This amount may be amended or restated by resolution of the Board of Directors. Holders of Preferred Capital Securities are entitled to receive, when, as and if declared by the Board of Directors, out of the Company's net profits, cash dividends that will be paid at such rates as will be determined by the Board of Directors prior to the first issuance of these securities. Dividends on the Preferred Capital Securities are noncumulative. Endesa is the guarantor of these securities.

On March 28, 2003, the Company completed the issuance of 60 million Preferred Capital Securities and received proceeds of €1.5 billion from the issuance. Preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor effective rate, provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. Dividends shall be payable quarterly in arrears on March 28, June 28, September 28 and December 28 commencing March 28, 2003. The Preferred Capital securities shall not be redeemed by the Company prior to March 28, 2013, with the exception of certain tax-related events, as defined in the Agreement. In the event the Preferred Capital Securities are not redeemed on March 28, 2013, preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor rate plus an effective annual rate of 3.75%. All costs related to this transaction were incurred by the Company and have been charged against the proceeds from issuing the securities.

Preferred Capital Securities possess no voting rights. However, in the event that the Company fails to pay dividends in full on the Preferred Capital Securities (and the guarantor fails to make a corresponding payment under the guarantee) for five consecutive dividend periods, then the holders of the Preferred Capital Securities have the right to alter the composition of the Board of Directors as prescribed in the Amended and Restated Limited Liability Company Agreement of Endesa Capital Finance, L.L.C. (the "Agreement").

Preferred Capital Securities may not be sold or otherwise transferred to a person in the United States of America except pursuant to sales or other transfers that satisfy the requirements of Regulation S under the Securities Act of 1933 (the "Securities Act") or that are otherwise exempt from the registration requirements of the Securities Act.

In the event of any voluntary or involuntary liquidation of the Company, the holders of the Preferred Capital Securities will be entitled to receive out of the assets of the Company available for distribution to securityholders an amount equal to the liquidation preference per Preferred Capital Security, plus accrued and unpaid dividends thereon for the then-current dividend period, if any, to the date of liquidation. This distribution will occur before any distribution of assets is made to holders of Common Capital Securities or any other class of securities ranking junior to the Preferred Capital Securities.

The Company may not, without the prior approval of the Preferred Capital Securityholders owning not less than 66% of the aggregate liquidation preference of all Preferred Capital Securities then outstanding, merge or consolidate into another entity unless such successor entity assumes all of the obligations of the Company under the Preferred Capital Securities or replaces the Preferred Capital Securities with other securities that have at least the same participation in the profits or assets of the successor entity as the Preferred Capital Securities have in the Company.

6. LIQUIDITY FEE

In February 2003, the Company entered into a "Contrato de Liquidez" (the "Liquidity Fee Agreement") with the underwriters of its Preferred Capital Securities offering. Pursuant to the Liquidity Fee Agreement, the Company is committed to pay an annual liquidity fee of .2% of the outstanding principal amount of the Preferred Capital Securities. The Company has recorded a liquidity fee expense of €2,266,666 for the period February 21, 2003 (date of formation) to December 31, 2003.

7. GUARANTY FEE

In February 2003, the Company entered into a "Acuerdo de Contragarantia" (the "Guaranty Fee Agreement") with Endesa, the guarantor of the Company's Preferred Capital Securities offering and the Company's ultimate parent company. Pursuant to the Guaranty Fee Agreement, the Company is committed to pay an annual guaranty fee of .2% of the outstanding principal amount of the Preferred Capital Securities. The Company has recorded a guaranty fee expense of €2,266,666 for the period February 21, 2003 (date of formation) to December 31, 2003.

8. RELATED PARTY TRANSACTIONS

Pursuant to the Agreement described in Note 5, the Parent is responsible for, and will pay, substantially all expenses of the Company to the extent such expenses are not paid by the Company. The expenses covered by the Agreement include administrative and organizational costs as well as any costs resulting from any litigation against the Company.

As discussed in Note 3, the Company's loan to the Parent is a related party transaction.

In addition, the guaranty fee discussed in Note 7 was paid to Endesa, S.A.

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