



Capital Finance L.L.C.

## Management Report 2012

## **1. General Comments**

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.

Loan to the Parent: On March 28, 2003, the Company made a loan of €1.5 billion to the Parent in exchange for a note. The note, which matures on March 28, 2013, bears interest at a rate equal to the three-month European InterBank Offering Rate (“Euribor”) rate plus a margin (0.30%), 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. In connection with this loan, the Company deducted an up-front loan fee of €12,200,000 from the loan amount to be disbursed to the Parent. The Company recognized loan fee income of €1,283,716 and €23,546,855 representing the accretion of the up-front loan fee for the years ended December 31, 2012 and 2011, respectively. The loan to the parent is presented net of unearned up-front loan fees of €320,929 and €1,604,645 as of December 31, 2012 and 2011, respectively.

In June 2011, the Parent repurchased €1,318,628,775 of the outstanding notes. In connection with the repurchase, the Company adjusted in amortization related to the upfront loan fees, which resulted in an additional €12,326,855 in up-front loan fee accretion. The Company also collected an additional €1,208,345 from the Parent, which has been recognized as prepayment fee income for the year ended December 31, 2011.

Also 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 (0.10%). On March 24, 2009 the Company extended a new €20 million short-term credit facility (2009 Credit Facility) to the Parent that modified and superseded the March 26, 2003 Credit Facility. At December 31, 2012 and 2011, the Company had a loan receivable of €1,736,535 and €12,131,632 respectively, from the Parent pursuant to the Credit Facility.

Preferred capital securities: On March 28, 2003, the Company completed the issuance of 60,000,000 preferred capital securities and received proceeds of €1.5 billion from the issuance. Preferred capital security holders 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 of each year. 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 Amended and Restated Limited Liability Company Agreement of Endesa Capital Finance, L.L.C. (the "Agreement"). In the event the preferred capital securities are not redeemed on March 28, 2013, preferred capital security holders 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.

On June 2011, the Company repurchased €1,318,628,775 of the preferred capital securities notes. In connection with the repurchase, the Company paid €11,208,345 to third parties as redemption fee. This amount has been recognized in operating expenses for the year .

Liquidity fee: In February 2003, the Company entered into a "Contrato de Liquidez" (the "Liquidity Fee Agreement") with the underwriters, an unrelated party, of its preferred capital securities offering. Pursuant to the Liquidity Fee Agreement, the Company is committed to pay an annual liquidity fee of 0.2% of the outstanding principal amount of the preferred capital securities.

Guaranty fee: In February 2003, the Company entered into a "Acuerdo de Contragarantía" (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 0.2% of the outstanding principal amount of the Preferred Capital Securities. In December 28<sup>th</sup> 2008 this fee was removed.

The Company is filing with the CNMV the Financial Statements, balance sheet and income statement, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), for the twelve months period ended December 31, 2012.

## **2. Operating Results**

The net income attributable to common security holders for the period ended December 31, 2012 reached €901,747.

## **3. Main Activities during 2012**

No new preferred capital securities were issued during 2012.

Holders of preferred capital securities received dividends of €7,254,849 during 2012.

The Company paid €1,007,406 as a liquidity fee.

During 2012 the Company continued to grant loans to the Parent. As of December 31, 2012 the amount granted reached €181,050,296 as a long term loan and €1,736,535 as a short-term credit facility.

#### **4. Financial Risk Management**

The Endesa's Group's Corporate Risk function provides services to manage the financial risk relating to the Company's operations.

#### **5. Subsequent Events**

In February 2013, the Board of Directors approved the redemption of the outstanding preferred capital securities, which was executed on March 28, 2013. The Company utilized proceeds from Loan to International Endesa B.V. to facilitate the redemption.

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