Introduction to International Financial Reporting Standards (IFRS)

Barcelona, June 3rd 2004

IAS/IFRS: Applicable Platform

- **International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are drawn up by the International Accounting Standards Board (IASB), private accounting regulatory body based in London**
- **On March 31st the IASB has issued the complete and definitive platform of standards to be applied since January 1st 2005. It comprises 31 IAS, 5 IFRS and 11 Interpretations (SIC)**
- **16 out of 31 IAS have been substantially modified between December 2003 and March 2004. 4 out of 5 IFRS have been issued between February and March 2004**

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Application in the EU

- July 19th 2002, the European Parliament rules that from January 1st, 2005 onwards the consolidated accounts of all listed European companies must be prepared in accordance with International Accounting Standards (IFRS or IAS) [Regulation # 1606/2002]

- Applicable IAS or IFRS have to be validated by the EU Commission.

- September 29th, 2003 the European Commission recognises all the existing IAS rules as of September 14th, 2002, except for IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial instruments: Recognition and Measurement) and its related SIC. [Regulation # 1725/2003]

- April 6th 2004, the European Commission validates IFRS I "First Time Adoption of International Financial Reporting Standards". [Regulation # 707/2004]

- Latest amendments are still pending of approval by the European Commission: IAS 32 and 39, the other 14 IAS modified until march 2004, and IFRS 2, 3, 4 and 5.

Main Differences between IAS/IFRS and Spanish GAAP

BASIC PRINCIPLES

Spanish GAAP	IAS/IFRS(*)
• General Principle: Faithful representation • Preferred Principle: Prudence • Going concern • Acquisition price • Accrual basis • Correlation between revenues and expenses • No offsetting • Consistency • Materiality	• Going Concern • Accrual basis • Understandability • Relevance • Materiality • Reliability • Faithful representation • Substance over form • Neutrality • Prudence • Completeness • Comparability

Main differences

- Prudence do not prevails over other principles
- Substance prevails over form
- No acquisition price principle, assets and liabilities may be valued at fair value

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(*) As stated in the Framework for the Preparation and Presentation of Financial Statements

Main Differences between IAS/IFRS and Spanish GAAP

FINANCIAL STATEMENTS

Spanish GAAP	IAS/IFRS *(IAS 1)*	Material Impact		
		Equity	P&L	Presentation
Balance Sheet: pre-defined format	Balance Sheet: free format with minimum requirements *(p51-77)*			✓
P&L: by nature with pre-defined format	P&L: by function or nature, with free format and minimum requirements. Must provide information of some expenses by nature *(p78-95)*			✓
Statement of Changes in Financial Position: explaining the variation in working capital	Statement of Change in Net Equity: presents the changes in equity *(p96-101)*			✓
	Cash Flow statement: explaining the change in cash position *(p102)*			✓
Notes to Financial Statements	Notes to financial statements *(p103-107)*			✓

Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Property, Plant and Equipment (IAS 16)				
• Updated Historical Cost	• Historical Cost or Fair Value *(p30-31)*			
	• Dismantling Costs: Higher Value of Historical Cost *(p16)*			✓
• Possibility of capitalising direct and indirect costs, and financial expenses assuming an average leverage	• Indirect costs not to be capitalised *(p19)*. Financial expenses may be capitalised considering fully debt financing *(IAS 23, p17)*			
• Financial expenses capitalisation accounted for as revenue, increasing operating income	• Financial expenses capitalisation deducted from financial expenses			
	• Impairment test: items grouped in minimum “Cash-Generating Units” *(IAS 36)*			✓

Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Financial Investments				
• Historical Cost or Equity Consolidation in stakes over 20% or over 3% in listed companies • Provision charge if the carrying amount of the investment is higher than the stake in the affiliate's equity	• Equity Consolidation in subsidiaries with significant influence. Otherwise, investments are recorded at fair value in accordance with IAS 39 *(IAS28, p.18; IAS 39, p46).*			✓
Goodwill amortization				
• Amortised in 20 years	• Goodwill is not amortised. Annual impairment test for recovery *(IFRS 3, p54,55)13*		✓	✓
Hyperinflationary adjustment				
• If allowed in country of origin	• If the country of origin can be defined as hyperinflationary *(IAS 29, p1,3)*		(*)	(*)

(*) Pending definition

Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Deferred Taxes				
• Deferred taxes assets are only recorded if they are recovered in <10 years. They can only arise from differences between the accounting and the taxable profits (Income Statement liability method)	• All are registered and arise from differences between accounting and tax value of both assets and liabilities *(IAS 12)* (Balance Sheet liability method)			
Deferred Charges				
• Deferred expenses to be recovered through CTC's	• Is not possible to defer expenses in the Asset's side of the BS			✓
• Debt issuance expenses	• Debt issuance expenses reduce debt liabilities			✓
Treasury Stock				
• Asset. Impact on results when sold	• Deduction from shareholders' equity. No impact on results when sold *(IAS 32, p33)*			✓

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Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Equity				
• Equity: only considered the share corresponding to the parent company • Exchange differences are definitively recognised	• Equity: both parent company and minority interests *(IAS 27, p33)* • Exchange differences are provisionally recognised in equity, and transferred to results when the company to which they relate is disposed of *(IAS 21, p48)*	✓	✓	✓
Provisions for risk and contingencies				
• Prudence Principle	• Probable liabilities are accounted for considering the most probable amount *(IAS 37, p13)*			✓
	• Future expenses (overhaul costs & major inspections) or uncertainties (Argentina) should not be recognised as provisions			✓

Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Preferred Shares				
• Minority interests	• Classified as liabilities if they are going to be redeemed *(IAS 32, AG 25, 26)*			✓
Deferred revenues				
• Unrealised exchange gains	• Unrealised exchange gains recognised in P&L *(IAS 21,p28)*			✓
• Government grants related to assets and up front charges for connection	• Government grants related to assets and upfront charges for connection could be deferred revenues or a deduction in the asset carrying amount *(IAS 20, p24)*			✓
	• Upfront fees from new customers contracts to be deferred *(IAS 18, App. A, p17)*			✓

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Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact
Post-employment benefits		Equity P&L Presentation
• Provision recorded at actuarial value	• Liability. Excess or deficit may be deferred in remaining working life. Within a +/-10% band there is no obligation to record deviations (IAS 19, p92-93)	
Derivatives (1)		
• Losses on speculative derivatives are accounted for as a provision • Derivatives on hedging transactions not marked to market until liquidation	• All derivatives marked to market and recognised in the Financial Statements *(IAS 39, p43)* • Cash flow hedge valuation: first recognised in equity and later accounted for in P&L, offsetting the results of the hedged item *(IAS 39, p95-97)* • Fair value hedge: both the derivative and the hedged item are marked to market with changes in value recognised in P&L *(IAS 39, p89)* • Purchase and sale contracts to be analysed to detect and value embedded derivatives *(IAS 39, p10-13)*	

(1) IAS 32 and 39 pending validation in the EU. In the case of validation, there is the possibility of not applying them in the 2004 comparatives presented in 2005 Financial Statements.

Main Differences between IAS/IFRS and Spanish GAAP

MAIN CHANGES

Spanish GAAP	IAS/IFRS	Material Impact: Equity	Material Impact: P&L	Material Impact: Presentation
Extraordinary results				
• All non-operating or attributable to previous years	• They do not exist (IAS 1, p85)			✓
Business combinations				
• May be recorded at book value	• At market value, normally giving rise to goodwill (IFRS 3, p.1)			
Information unbundled by business activity				
• Only obligatory in some cases, i.e. electricity companies	• Obligatory by business segments and geographical segments (IAS 14)			
Net income per share				
• Not obligatory disclosure	• Obligatory disclosure of basic and diluted EPS. Diluted EPS considering any equity or hybrid instrument issued (IAS 33, p.66)			

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First Application of the IAS/IFRS

All previous financial statements are restated according to IAS/IFRS. Nevertheless companies may use the following exceptions, as stated in IFRS 1:

- **In business combinations previous accounting can be kept *(p 15)***
- **If an item of Fixed Assets is carried out at historical value, legal asset revaluations under previous GAAP are accepted. Also, fair value at the transition date can used as its deemed cost at that date *(p 16)***
- **An entity can fully book the value of its employee benefits in the transition date, although it may choose to use the corridor approach for later actuarial gains and losses *(p20)***
- **Accumulated translation differences are considered definitive and transferred to reserves *(p22)***
- **The hybrid financial instruments whose liability component is no longer outstanding do not need to have the initial effect broken down and differentiated *(p23)***

All the effects of initial transition to IAS/IRFS are recorded against equity

Applicability: When ENDESA will Apply IFRS

Financial Statements FY 2004 → **Spanish GAAP**

Financial Statements 1Q 2005 → **IFRS, including the 2004 comparatives**

Forward Looking Statements:

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the United States Private Securities Litigation Reform Act of 1995. The U.S. Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This presentation contains certain forward-looking statements regarding: anticipated financial and operating results and statistics that are subject to risks and uncertainties. Forward-looking statements could include, but are not limited to, information regarding: estimated future earnings, costs, EBITDA and debt, leverage and other ratios; anticipated increases market share; expected increases in demand for gas and gas sourcing; operational efficiencies; management strategy and goals; tariffs and pricing structure; estimated evolution of electricity prices; estimated capital expenditures and other investments; expected asset disposals and acquisitions; estimated increases in capacity, output and sales and changes in their mix; repowering of capacity; estimated number of clients; anticipated work force levels, estimated reduction of specific CO_2 emissions, potential impact of the IAS implementation on our financial statements and macroeconomic conditions.

For all of these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors, in addition to those discussed elsewhere in this presentation, could cause actual financial and operating results and statistics to differ materially from those expressed in our forward-looking statements:

Economic and Industry Conditions: materially adverse changes in economic or industry conditions generally or in our markets; the effect of existing regulations and regulatory changes; tariff reductions; the impact of any fluctuations in interest rates; the impact of fluctuations in exchange rates; natural disasters; the impact of more stringent environmental regulations and the inherent environmental risks relating to our business operations; the potential liabilities relating to our nuclear facilities.

Transaction or Commercial Factors: any delays in or failure to obtain necessary regulatory, antitrust and other approvals for our proposed acquisitions or asset disposals, or any conditions imposed in connection with such approvals; our ability to integrate acquired businesses successfully; the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the process of integrating acquired businesses; the outcome of any negotiations with partners and governments.

Political/Governmental Factors: political conditions in Latin America; changes in Spanish and foreign laws, regulations and taxe.

Operating Factors: technical difficulties; changes in operating conditions and costs; the ability to implement cost reduction plans; the ability to maintain a stable supply of fuel and the impact of fluctuations on fuel prices; acquisitions or restructurings; the ability to implement an international and diversification strategy successfully.

Competitive Factors: the actions of competitors; changes in competition and pricing environments; the entry of new competitors in our markets.

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