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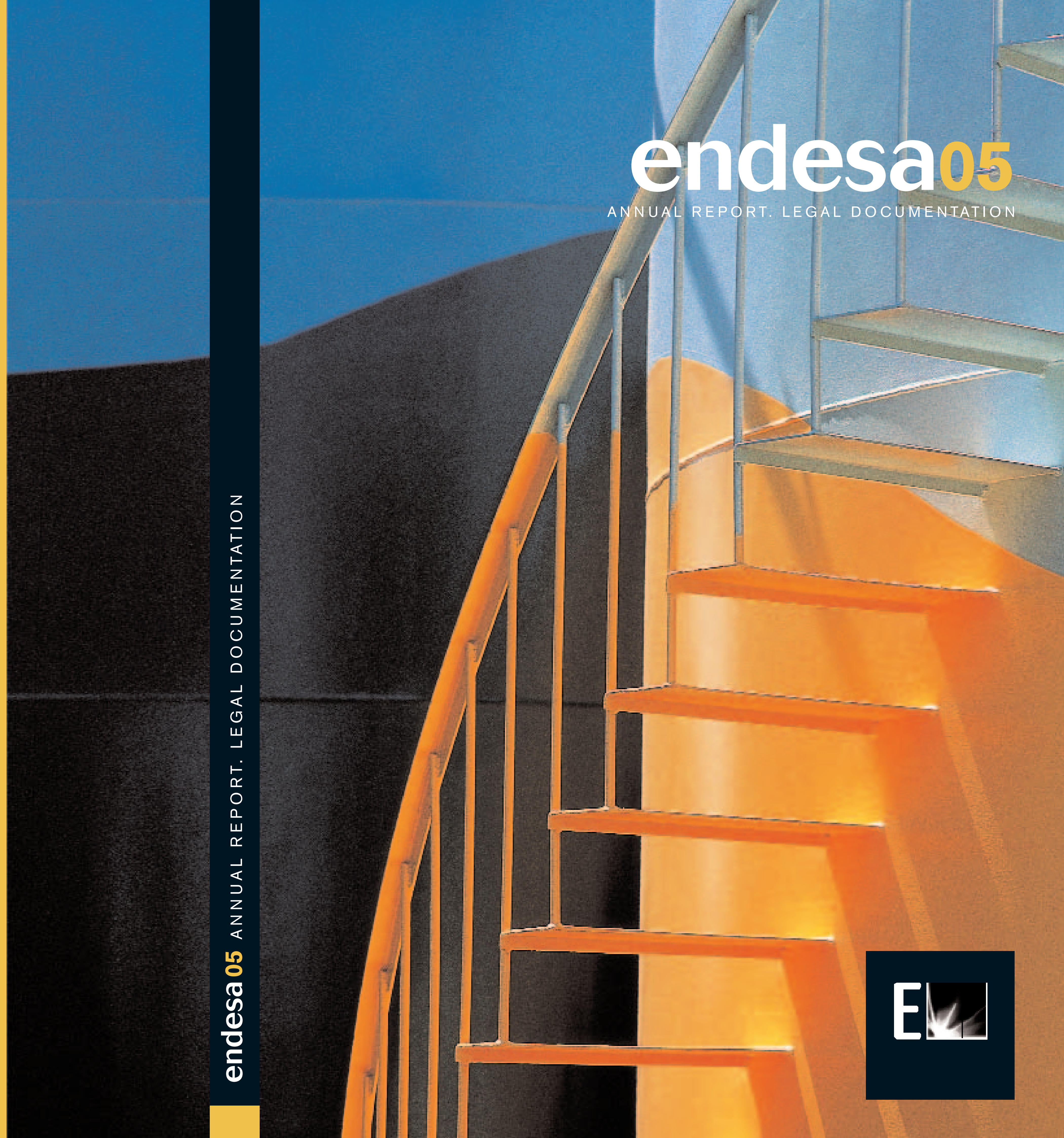

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ENDESA, S.A. AND SUBSIDIARIES. CONSOLIDATED FINANCIAL STATEMENTS FOR 2005

ENDESA, S.A. 2005 FINANCIAL STATEMENTS

ENDESA, S.A.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR 2005

ENDESA, S.A.
AND SUBSIDIARIES

Auditor's Report

Consolidated Financial Statements
for the Year Ended 31 December 2005
and Consolidated Directors' Report

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Stockholders of
Endesa, S.A.:

1. We have audited the consolidated financial statements of Endesa, S.A. (the Parent) and Subsidiaries (the Group) comprising the consolidated balance sheet at December 31, 2005, and the related consolidated income statement, consolidated cash flow statement, consolidated statement of recognised income and expense and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made. Our work did not include an examination of the financial statements of certain investees whose assets and sales represented 16% and 12%, respectively, of the related consolidated figures as of December 31, 2005. The financial statements of these investees were audited by other auditors and our opinion as expressed in this report on the consolidated financial statements of Endesa, S.A. and Subsidiaries is based, with respect to these investees, solely on the reports of the other auditors.

2. The consolidated financial statements for 2005 referred to above are the first that the Group has prepared in accordance with the International Accounting Standards adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by corporate legislation, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2005 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of recognised income and expense and notes to the consolidated financial statements, the figures for 2004, which were obtained by applying the EU-IFRSs in force at 31 December 2005. Accordingly, the figures for 2004 differ from those contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles and standards in force in that year. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 January and 31 December 2004, and to the Group's consolidated profit for 2004 are detailed in Note 28 to the consolidated financial statements referred to above. Our opinion refers only to the consolidated financial statements for 2005. Our auditor's report dated 9 March 2005, on the consolidated financial statements for 2004, prepared in accordance with the accounting principles and standards in force in that year, contained an unqualified opinion.

3. As indicated in Note 2.1, the Group has applied the exception provided for in IFRS 1 adopted by the European Union, which permits the application of International Accounting Standards 32 and 39 in relation to financial instruments from 1 January 2005 onwards, without requiring that the comparative figures for 2004 be adapted and, therefore, the figures for the two years should be compared taking this circumstance into account.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414. inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

4. In our opinion, based on our audit and on the reports of the other auditors indicated in paragraph 1 above, the consolidated financial statements for 2005 referred to above present fairly, in all material respects, the consolidated equity and consolidated financial position of Endesa, S.A. and Subsidiaries at 31 December 2005, and the consolidated results of their operations, the changes in the consolidated statement of recognised income and expense and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with the International Financial Reporting Standards adopted by the European Union which, except as indicated in paragraph 3 above, were applied on a basis consistent with that used in the preparation of the financial statements for 2004 which were included in the consolidated financial statements for 2005 for comparison purposes.

5. The accompanying directors' report for 2005 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the consolidated financial statements for 2005. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Endesa, S.A. and Subsidiaries.

DELOITTE
Registered in ROAC under no. S0692

Eduardo Sanz Hernández
20 January 2006

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

	Millions of Euros	
	31/12/05	31/12/04
ASSETS		
NON-CURRENT ASSETS	**45,742**	**39,693**
Property, plant and equipment (Note 5)	32,313	28,910
Investment property (Note 6)	71	58
Intangible assets (Note 7)	863	323
Goodwill (Note 8)	4,278	3,556
Investments accounted for using the equity method (Note 9)	623	2,191
Non-current financial assets (Note 10)	4,134	1,296
Deferred tax assets (Note 19)	3,460	3,359
CURRENT ASSETS	**9,601**	**7,489**
Inventories (Note 11)	812	756
Trade and other receivables (Note 12)	6,098	4,382
Current financial assets	77	64
Cash and cash equivalents	2,614	2,178
Other current assets	-	109
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	**22**	**-**
TOTAL ASSETS	**55,365**	**47,182**
EQUITY AND LIABILITIES		
EQUITY (Note 13)	**16,327**	**14,133**
Of the Parent	11,590	8,728
Of minority interests	4,737	5,405
NON-CURRENT LIABILITIES	**28,630**	**26,400**
Deferred income (Note 14)	2,062	1,535
Long-term provisions (Note 15)	5,097	4,394
Bank borrowings and other financial liabilities (Note 16)	18,587	17,715
Other non-current payables	1,032	1,032
Deferred tax liabilities (Note 19)	1,852	1,724
CURRENT LIABILITIES	**10,408**	**6,649**
Bank borrowings and other financial liabilities (Note 16)	2,450	1,541
Current trade and other payables	7,958	5,108
TOTAL EQUITY AND LIABILITIES	**55,365**	**47,182**

The accompanying Notes 1 to 29 are an integral part of the consolidated balance sheet at 31 December 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Millions of Euros	
	2005	**2004**
REVENUE (Note 20**)**	**18,229**	**13,665**
Sales	17,508	13,509
Other operating income	721	156
PROCUREMENTS AND SERVICES	**(9,103)**	**(6,292)**
Power purchased	(3,367)	(2,356)
Cost of fuel consumed	(3,578)	(2,724)
Transmission expenses	(651)	(520)
Other variable procurements and services	(1,507)	(692)
CONTRIBUTION MARGIN	**9,126**	**7,373**
Work on non-current assets	170	161
Staff costs	(1,547)	(1,393)
Other fixed operating expenses	(1,729)	(1,620)
GROSS PROFIT FROM OPERATIONS	**6,020**	**4,521**
Depreciation and amortisation charge (Notes 5 and 7)	(1,776)	(1,675)
PROFIT FROM OPERATIONS	**4,244**	**2,846**
FINANCIAL LOSS (Note 21)	**(1,252)**	**(1,147)**
Net finance costs	(1,257)	(1,087)
Exchange differences	5	(60)
Result of companies accounted for using the equity method	67	79
Income from other investments	2	40
Income from sale of assets (Note 22)	1,486	195
PROFIT BEFORE TAX	**4,547**	**2,013**
Income tax (Note 19)	(790)	(352)
PROFIT FOR THE YEAR	**3,757**	**1,661**
PARENT	**3,182**	**1,253**
Minority interests	575	408
NET EARNINGS PER SHARE (in euros)	***3.01***	***1.19***
DILUTED NET EARNINGS PER SHARE (in euros)	***3.01***	***1.19***

The accompanying Notes 1 to 29 are an integral part of the consolidated income statement for 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Millions of Euros					
	2005			2004		
	Of the Parent	Of Minority Interests	Total	Of the Parent	Of Minority Interests	Total
NET PROFIT RECOGNISED DIRECTLY IN EQUITY	**727**	**693**	**1,420**	**37**	**186**	**223**
In retained earnings	(209)	-	(209)	-	-	-
Actuarial losses on pension schemes (Note 15)	(323)	-	(323)	-	-	-
Tax effect	114	-	114	-	-	-
In asset and liability revaluation reserves	187	34	221	57	38	95
Available-for-sale investments (Note 10)	237	-	237	-	-	-
Cash flow hedges (Notes 16 and 18)	(17)	34	17	57	38	95
Tax effect	(33)	-	(33)	-	-	-
In translation differences (Note 13)	749	659	1,408	(20)	148	128
Gross translation differences	807	659	1,466	10	148	158
Tax effect	(58)	-	(58)	(30)	-	(30)
PROFIT FOR THE YEAR	**3,182**	**575**	**3,757**	**1,253**	**408**	**1,661**
TOTAL INCOME AND EXPENSES RECOGNISED IN THE YEAR	**3,909**	**1,268**	**5,177**	**1,290**	**594**	**1,884**

Gross effect of changes in accounting policies (application of IASs 32 and 39)	(283)	(1,574)	(1,857)	-	-	-
Tax effect	91	-	91	-	-	-
Net effect of changes in accounting policies (application of IASs 32 and 39)	(192)	(1,574)	(1,766)	-	-	-

The accompanying Notes 1 to 29 are an integral part of the consolidated statement of recognised income and expense for 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Millions of Euros	
	2005	**2004**
Gross profit before tax and minority interests	4,547	2,013
Depreciation and amortisation charge	1,776	1,675
Income from sale of assets	(1,486)	(195)
Income tax	(650)	(200)
Provisions paid	(443)	(454)
Other results not giving rise to cash flows	465	579
Cash from operations	4,209	3,418
Change in income tax payable	341	(16)
Change in operating current assets / liabilities	(1,188)	246
NET CASH FLOWS FROM OPERATING ACTIVITIES	**3,362**	**3,648**
Investments in property, plant and equipment and intangible assets	(3,247)	(2,262)
Other investments	(1,485)	(425)
Income from disposal of investments	3,702	692
Grants and other deferred income	312	159
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(718)**	**(1,836)**
Non-current bank borrowing drawdowns	3,030	1,363
Non-current bank borrowings and other financial liabilities repaid	(1,737)	(455)
Net cash flows from current bank borrowings and other financial liabilities	(2,366)	(1,720)
Treasury share collections / payments	-	44
Dividends of the Parent paid	(796)	(739)
Payments to minority interests	(457)	(196)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(2,326)**	**(1,703)**
TOTAL NET CASH FLOWS	**318**	**109**
Effect of foreign exchange rate changes on cash and cash equivalents	118	(22)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**436**	**87**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,178**	**2,091**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,614**	**2,178**

The accompanying Notes 1 to 29 are an integral part of the consolidated cash flow statement for 2005.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2005

1. Group activities and financial statements

Endesa, S.A. ("the Parent" or "the Company") and its subsidiaries compose the Endesa Group ("Endesa" or "the Group"). Endesa, S.A.'s registered office and headquarters are in Madrid, at calle Ribera del Loira, 60.

The Company was incorporated as a Spanish "Sociedad Anónima" in 1944 under the name of Empresa Nacional de Electricidad, S.A. and it changed its corporate name to Endesa, S.A. pursuant to a resolution of the shareholders adopted at the Annual General Meeting on 25 June 1997.

Endesa's 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 investments in other companies. In 2005 the Endesa Group disposed of its investments in the telecommunications business.

Endesa's consolidated financial statements for 2004 were approved by the shareholders at the Annual General Meeting on 27 May 2005. The 2004 consolidated financial statements were prepared in accordance with Spanish GAAP and, therefore, they do not coincide with the amounts for 2004 included in these consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards (see Note 28 for the reconciliation of the equity and profit for the year, together with a description of the principal adjustments).

The Group's 2005 consolidated financial statements and the 2005 financial statements of each of the Group companies, which were used as the basis for the preparation of these consolidated financial statements, have not yet been approved by the shareholders at the respective Annual General Meetings. However, the directors consider that these financial statements will be approved without any changes.

These consolidated financial statements are presented in millions of euros (unless expressly stated otherwise) because the euro is the functional currency of the principal economic area in which the Endesa Group operates. Foreign operations are recorded in accordance with the policies established in Note 13.1.

2. Basis of presentation of the consolidated financial statements

2.1. Basis of presentation

The consolidated financial statements for 2005 of the Endesa Group were prepared by the directors, at the Board of Directors' Meeting held on 16 January 2006, in accordance with the International Financial Reporting Standards ("IFRSs") adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council.

These financial statements present fairly the Group's consolidated equity and financial position at 31 December 2005, and the results of its operations, the changes in the statement of recognised income and expense and the cash flows at the Group in the year then ended.

The consolidated financial statements for 2005 of the Endesa Group were prepared on the basis of the accounting records kept by the Company and by the other Group companies. Each company prepares its financial statements in accordance with the accounting principles and standards in force in the country in which it operates and, therefore, the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with IFRSs.

The consolidated financial statements for 2004 included for comparative purposes were also prepared in accordance with the IFRSs adopted by the European Union on a basis consistent with that applied in 2005, except for the fact that the Group opted to apply the exception contained in IFRS 1, adopted by the European Union, which permits the application of IASs 32 and 39 on financial instruments from 1 January 2005, without having to adapt the comparative figures for the prior year. Therefore, any comparison of the two years should be made taking this circumstance into account.

2.2. Responsibility for the information and for the estimates made

The information in these financial statements is the responsibility of the Group's directors.

In preparing the accompanying consolidated financial statements estimates were occasionally made by the senior executives of the Group in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The measurement of assets and goodwill to ascertain whether there are any impairment losses thereon (see Note 3-e).
- The assumptions used in the actuarial calculation of the pension liabilities and commitments and collective redundancy procedures (see Note 15).
- The useful life of the property, plant and equipment and intangible assets (see Notes 3-a and 3-d).
- The assumptions used in measuring the fair value of the financial instruments (see Note 3-f).
- The power supplied to customers not read by meters and other electricity system variables.
- The probability of the occurrence and the amount of liabilities which are uncertain as to their amount or contingent liabilities.
- The future facility closure and land restoration costs.

Although these estimates were made on the basis of the best information available at the date of preparation of these financial statements on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related future consolidated financial statements.

2.3. Basis of consolidation

The subsidiaries are fully consolidated and all their assets, liabilities, income, expenses and cash flows are included in the consolidated financial statements after making the adjustments and eliminations relating to intra-Group transactions. Subsidiaries are defined as companies over which the Parent controls half or more of the voting power of the investee or, even if this percentage is lower, when it has the power to govern the financial and operating policies thereof.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or until the effective date of disposal, as appropriate.

The operations of the Parent and of the consolidated subsidiaries are consolidated in accordance with the following basic principles:

1. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their market value. Any excess of the cost of acquisition of the subsidiary over the market value of its assets and liabilities, in proportion to the Parent's ownership interest, is recognised as goodwill. Any deficiency of the cost of acquisition below the market value of the assets and liabilities is credited to the consolidated income statement.

2. The interest of minority shareholders in the equity and results of the fully consolidated subsidiaries is presented under Equity – Of Minority Interests in the consolidated balance sheet and under Profit for the Year – Minority Interests in the consolidated income statement, respectively.

3. The financial statements of foreign companies with a functional currency other than the euro are translated to euros as follows:

    a. Assets and liabilities are translated to euros at the exchange rates prevailing on the date of the consolidated financial statements.
    b. Income and expense items are translated at the average exchange rates for the year.
    c. Equity is translated at the historical exchange rates prevailing at the date of acquisition (or at the average exchange rates in the year it was generated, in the case of both accumulated earnings and the contributions made), as appropriate.

    Exchange differences arising on translation of the financial statements are recognised, net of the related tax effect, under the heading Equity – Translation Differences (see Note 13).

4. All the balances and transactions between the fully consolidated companies were eliminated on consolidation.

2.4. Subsidiaries

The section entitled "Main Endesa Group Companies", included as an Appendix to these financial statements, lists the main companies composing the Endesa Group.

Changes in the scope of consolidation

In June 2004 Endesa Participadas, S.A. sold its 50.55% investment in Netco Redes, S.A., as a result of which this company ceased to be fully consolidated.

In September 2004 ENDESA completed its acquisition of a controlling interest in the French producer Societé Nationale d´Electricité et de Thermique, S.A. ("Snet") when Endesa Europa, S.L. acquired an additional 35% holding in this company, giving it an ownership interest of 65%. As a result of this acquisition Snet was fully consolidated from 1 September 2004. In 2004 this inclusion increased the Group's assets, excluding cash, by EUR 1,341 million and increased its liabilities by EUR 851 million.

In May 2005 Endesa Participadas, S.A. sold all the shares of Nueva Nuinsa, S.L., as a result of which this company ceased to be fully consolidated.

In August 2005 Endesa Cogeneración y Renovables, S.A. ("ECyR") acquired all the shares of the Portuguese renewable energy company Finerge-Gestao de Projectos Energéticos, S.A. ("Finerge"), as a result of which this company was fully consolidated from 1 September 2005.

Companies fully consolidated although the percentage of ownership is below 50%

Although the Endesa Group has an ownership interest of less than 50% in Compañía Distribuidora y Comercializadora de Energía, S.A. (“Codensa”), Empresa Generadora de Energía Eléctrica, S.A. (“Emgesa”) and Parque Eólico Serra de Capucha, S.A., they are deemed to be subsidiaries, since the Group directly or indirectly, by virtue of shareholders’ agreements, or as a result of the shareholder structure and composition and classes of the shares, exercises control over these companies.

3. Accounting policies

The principal accounting policies used in preparing the accompanying consolidated financial statements were as follows:

a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes, as appropriate, the following:

1. Borrowing costs incurred during the construction period. The interest rate used is that which relates to specific-purpose financing or, if no such rate exists, the average financing rate of the company making the investment.

2. Staff costs relating directly to construction in progress. The amounts capitalised in this connection are recorded in the consolidated income statement as an expense under Staff Costs and as a revenue under Work on Non-Current Assets. EUR 170 million were capitalised in this connection in 2005.

3. The future costs that the Group will have to incur in respect of the closure of its facilities are capitalised to the cost of the asset, at present value, and the related provision is recognised. The Group reviews each year its estimate of these future costs, increasing or decreasing the value of the asset in question based on the results of this estimate. In the case of nuclear plants, this provision includes the amount that the Group estimates that it will have to incur until, pursuant to Royal Decree 1349/2003, of 31 October, and Law 24/2005, of 18 November, the public radioactive waste management entity Enresa (“Enresa”) assumes responsibility for the decommissioning of these plants.

The acquisition cost of assets acquired before 31 December 2003, includes, where appropriate, the asset revaluations permitted in the various countries to correct the value of the property, plant and equipment for the effect of inflation.

Property, plant and equipment in the course of construction is transferred to operating property, plant and equipment once the trial period has ended, from which time it starts to be depreciated.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Replacements or renewals of complete items that lead to a lengthening of the useful life of the assets or to an increase in their economic capacity are recorded as additions to property, plant and equipment, and the items replaced or renewed are derecognised.

Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred.

The joint property entities whose ownership is shared by the Company and other owners of indivisible assets are recorded on the basis of the percentage of ownership of the assets.

Based on the results of the impairment test described in Note 3-e, the Company's directors consider that the carrying amount of the assets does not exceed their recoverable amount.

The property, plant and equipment, less, where appropriate, their residual value, are depreciated on a straight-line basis over the years of estimated useful life of the assets, which constitute the period over which the companies expect to use them:

	Years of Estimated Useful Life
Generating facilities:	
Hydroelectric power plants	35-65
Coal-fired / fuel-oil power plants	25-40
Nuclear power plants	40
Combined cycle plants	10-25
Renewable energy plants	25-55
Transmission and distribution facilities:	
High-voltage network	20-40
Low- and medium-voltage network	20-40
Measuring and remote control equipment	10-35
Other facilities	4-25

b) Investment property

The companies measure investment property at acquisition cost less any accumulated depreciation and any accumulated impairment losses.

The market value of the Group's investment property is disclosed in Note 6 to the accompanying consolidated financial statements. This market value is calculated on the basis of appraisals undertaken by professional valuers.

Investment property is depreciated on a straight-line basis over the years of useful life of the related assets.

c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

The assets and liabilities acquired are measured provisionally at the date on which control acquired, and the resulting value is reviewed in a maximum period of one year from the date of acquisition. Until the fair value of the assets and liabilities has been definitively determined, the difference between the cost of acquisition and the carrying amount of the company acquired is recognised provisionally as goodwill.

Goodwill is treated as an asset of the acquired company and, therefore, in the case of a subsidiary with a functional currency other than the euro, it is measured in the functional currency of that subsidiary and is translated to euros at the exchange rate prevailing at the date of the balance sheet.

Goodwill acquired on or after 1 January 2004, is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2003, in accordance with Spanish GAAP. In both cases, since 1 January 2004, goodwill has not been amortised, and at the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and any impairment is written down (see Note 3-e).

d) Intangible assets

Intangible assets are measured initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are generally amortised over five years.

The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years are described in Note 3-e.

The Group recognises CO_2 emission allowances as non-amortisable intangible assets. The allowances received for no consideration under the related national assignment plans are measured at the market price prevailing when they are received, and an item of deferred income is recognised for the same amount.

In 2005 Endesa received for no consideration emission allowances equal to 46.1 million tonnes of CO_2 under the national assignment plans approved in Spain, France and Poland. These plans also provide for the assignment free of charge of emission allowances in 2006 and 2007 for an amount equal to 42.8 million tonnes and 41.3 million tonnes, respectively. Emission allowances were not assigned to Endesa Italia S.p.A. because the Italian national emission allowance assignment plan has not yet been approved. In 2005 the Endesa Group consumed 66.8 million tonnes of emission allowances, which include 12.6 million tonnes relating to Endesa Italia S.p.A.. The accounting treatment applied is disclosed in Notes 3-j and 3-k.

The hydroelectric power plants and mines are operated under the temporary administrative concession system. However, the value recognised for these concessions is not material since, in most cases, it was not necessary to make significant disbursements to obtain them.

The Group recognises expenditure on research activities as an expense in the consolidated income statement. The research expenditure charged to the consolidated income statement in 2005 and 2004 amounted to EUR 42 million and EUR 24 million, respectively.

e) Asset impairment

At each balance sheet date, or whenever it is considered necessary, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the identifiable asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated, the recoverability analysis is performed systematically at the end of each year or whenever it is considered necessary to perform such an analysis.

Recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is taken to be the present value of the estimated future cash flows. In calculating the recoverable amount of property, plant and equipment and goodwill, the Group used the value in use approach in practically all cases.

In assessing value in use, the Group prepares the projections of future pre-tax cash flows on the basis of the budgets most recently approved by the Company's directors. These budgets include the best available estimates of the income and costs of the cash-generating units using industry projections, past experience and future expectations.

These projections cover the coming five years and the flows for future years are estimated by applying reasonable growth rates that in no case are increasing or exceed the growth rates of prior years.

These flows are discounted at a given pre-tax rate in order to calculate their present value. This rate reflects the cost of capital of the business and the geographical area in which it is carried on. In order to calculate it, the current time value of money and the risk premiums generally used by analysts for the business and the geographical area are taken into account.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference with a charge to the heading “Depreciation and Amortisation Charge” in the consolidated income statement.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset with a credit to income, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. Impairment losses on goodwill are not reversible.

f) Financial instruments

Financial assets

The Group classifies its non-current and current financial assets, excluding investments accounted for using the equity method (see Note 9) and assets classified as held for sale, in four categories:

- Loans and receivables: these items are measured at amortised cost, which is basically the amount of cash delivered, minus principal repayments, plus the accrued interest receivable, in the case of loans, and at the present value of the consideration paid, in the case of receivables.

- Held-to-maturity investments: investments that the Endesa Group has the intention and ability to hold to the date of maturity, which are also measured at amortised cost.

- Financial assets at fair value through profit or loss: these include the held-for-trading financial assets and financial assets that are managed and assessed at fair value. They are recognised in the consolidated balance sheet at fair value and the changes in fair value are recognised in the consolidated income statement. At 31 December 2005, there were no assets of this nature.

- Available-for-sale financial assets: these are the other financial assets that do not fall into any of the aforementioned three categories, which relate substantially in full to equity investments (see Note 10). These assets are recognised in the consolidated balance sheet at fair value when fair value can be determined reliably. Since it is usually not possible to determine reliably the fair value of investments in companies that are not publicly listed, when this is the case, such investments are measured at acquisition cost or at a lower amount if there is evidence of impairment. Changes in fair value, net of the related tax effect, are recognised with a charge or credit, as appropriate, to Equity – Unrealised Asset and Liability Revaluation Reserve (see Note 13), until these assets are disposed of, at which time the cumulative balance of this account relating to those assets is recognised in full in the consolidated income statement. If fair value is lower than acquisition cost, the difference is recognised directly in the consolidated income statement.

Purchases and sales of financial assets instrumented in conventional contracts are recognised using the trade date method.

Financial liabilities

Financial liabilities are generally recognised at the amount received, net of the transaction costs incurred. In subsequent periods, these obligations are measured at amortised cost using the effective interest method.

When the liabilities are the underlying of a fair value hedge, as an exception, they are measured at fair value for the hedged risk.

Derivative financial instruments and hedge accounting

The derivatives held by the Group relate mainly to interest rate, foreign exchange or electricity or fuel price or supply hedges, the purpose of which is to eliminate or significantly reduce these risks in the underlying hedged transactions.

Derivatives are initially recognised at acquisition cost in the consolidated balance sheet and the required value adjustments are subsequently made to reflect their fair value at all times. They are recorded under the heading "Non-Current Financial Assets" in the consolidated balance sheet if they are positive and under the heading "Bank Borrowings and Other Financial Liabilities" in the consolidated balance sheet if they are negative. Gains and losses from these changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedge which is highly effective, in which case it is recognised as follows:

- Fair value hedges: the hedged item and the hedge are both measured at fair value, and changes in these fair values are recognised in the consolidated income statement, netting off the effects under the same heading in the consolidated income statement.

- Cash flow hedges: changes in the fair value of the derivatives, in respect of the effective portion of the hedges, under Equity – Unrealised Asset and Liability Revaluation Reserve (see Note 13). The cumulative gain or loss recognised in this account is transferred to the consolidated income statement to the extent that the underlying has an impact on the consolidated income statement in relation to the hedged risk, netting off the effects under the same heading in the consolidated income statement.

- Hedges of a net investment in a foreign operation: changes in fair value are recognised, in respect of the effective portion of these hedges, net of the related tax effect, as Translation Differences in equity (see Note 13), and are transferred to the consolidated income statement when the hedged investment is disposed of.

Derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

The fair value of the derivative financial instruments is calculated as follows:

- Derivatives quoted on an organised market, at market price at year-end.

- The Group measures derivatives not traded on an organised market by discounting the expected cash flows based on spot and futures market conditions at the end of each year.

g) Investments accounted for using the equity method

Investments in companies over which the Group has joint control with another company or over which it has a significant influence are accounted for using the equity method. In general, significant influence is presumed to exist when the Group has an ownership interest of over 20%.

The equity method consists of recognising the investment in the consolidated balance sheet at the Group's share of net assets of the investee, adjusted, if appropriate, by the effect of transactions with the Group, plus the unrealised gains relating to the goodwill paid on acquisition of the company.

If the resulting amount were negative, the investment should be presented in the Group's consolidated balance sheet with a zero value, unless the Group is obliged to restore the company's equity position, in which case the related provision for contingencies and expenses is recognised.

Dividends received from these companies are deducted from the value of the investment, and the results of these companies that correspond to Endesa on the basis of its percentage of ownership are recognised, net of the related tax effect, under the heading "Result of Companies Accounted for Using the Equity Method" in the consolidated income statement.

h) Inventories

Inventories are stated at the lower of weighted average acquisition cost and net realisable value. The Group capitalises finance costs to inventories with a turnover of over one year, which relate mainly to nuclear fuel.

The cost of nuclear fuel consumed is recognised in the consolidated income statement on the basis of the amount burned during the year.

i) Non-current assets classified as held for sale

The Group classifies as non-current assets held for sale property, plant and equipment, intangible assets or investments under the heading "Investments Accounted for Using the Equity Method" for which at the date of the consolidated balance sheet active measures had been initiated to sell them and the sale is expected to have been completed within 12 months from that date.

These assets are measured at the lower of carrying amount and fair value less costs to sell.

At 31 December 2005, the only asset in this category was the investment in NQF Gas SGPS, S.A. ("NQF Gas") (see Note 9).

j) Deferred income

The Group receives legally established compensation for the amounts paid for the construction or acquisition of certain facilities or, in come cases, is assigned the facilities directly in accordance with current legislation.

These amounts are recorded as deferred income on the liability side of the consolidated balance sheet and are recognised in the consolidated income statement under the heading "Other Operating Income" over the years of useful life of the asset, thereby offsetting the related depreciation charge.

In the case of the assignment of facilities, both the asset and the deferred income are recognised at the fair value of the asset on the date of the assignment.

The same treatment is given to the CO_2 emission allowances received for no consideration under the framework of the national emission allowance assignment plan approved by each country.

These allowances are initially recognised as an intangible asset and an item of deferred income at their market value when the allowances are received, and are allocated to the heading "Other Operating Income" in the consolidated income statement to the extent that the CO_2 emissions covered by them are made.

k) Provisions

The present obligations at the balance sheet date arising from past events which could give rise to a loss for the Group which is uncertain as to its amount and timing are recognised as provisions in the consolidated balance sheet at the present value of the most probable amount that it is considered the Group will have to disburse to settle the obligation.

Provisions are quantified on the basis of the best information available at the date of preparation of the consolidated financial statements on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year.

The obligations reflected in the consolidated balance sheet in respect of provisions for pensions and similar obligations and for labour force restructuring plans arise as a result of collective or individual agreements with the Group's employees which provide for the Company's obligation to supplement the public social security system benefits in the event of retirement, permanent disability, death or termination of the employment relationship as a result of an agreement between the parties (see Note 15).

Provisions for pensions and similar obligations

Most of the Group companies have pension obligations to their employees, on the basis of the Group company at which they arose. These obligations, which combine defined benefits and defined contributions, are basically formalised in pension plans or insurance policies.

The companies recognise the expenditure relating to these obligations on an accrual basis over the working life of the employees by performing the appropriate actuarial studies.

The actuarial losses and gains arising in the measurement of these liabilities and those arising from changes in the fair value of the plan assets are recognised directly under the heading "Equity – Retained Earnings" (see Note 13). This accounting policy was made possible by the amendment of IAS 19 published in the Official Journal of the European Communities on 24 November 2005, and Endesa decided to use this method in these consolidated financial statements.

The amount of the net actuarial liabilities accrued at year-end is recorded under Long-Term Provisions on the liability side of the accompanying consolidated balance sheet.

Provisions for labour force restructuring plans

The Group recognises termination benefits when there is an individual or collective agreement with the employees or a genuine expectation that such an agreement will be reached that will enable the employees, unilaterally or by mutual agreement with the company, to cease working for the Group in exchange for a termination benefit. If a mutual agreement is required, a provision is only recorded in situations in which the Group considers that it will give its consent to the termination of the employees. In all cases in which these provisions are recognised the employees have an expectation that these early retirements will take place.

The Group has labour force reduction plans in progress, mainly in Spain, under the related collective redundancy procedures approved by the government, which guarantee that benefits will be received throughout the pre-retirement period.

The Endesa Group recognises the full amount of the expenditure relating to these plans when the obligation arises by performing the appropriate actuarial studies to calculate the present actuarial obligation at year-end. The actuarial gains and losses disclosed each year are recognised in the consolidated income statement for that year.

Provision for CO_2 emission allowance costs

From 2005 onwards the European Group companies that make CO_2 emissions in their electricity generation activity must deliver in the first few months of the subsequent year CO_2 emission allowances equal to the volume of emissions made during the year.

The obligation to deliver emission allowances for the CO_2 emissions made during the year is recognised as a short-term provision under the heading "Non-Current Trade and Other Payables" in the consolidated balance sheet, and the related cost was recorded as Other Variable Procurements and Services in the consolidated income statement. This obligation is measured at the same amount as that at which the CO_2 emission allowances to be delivered to cover this obligation are recognised under Intangible Assets in the consolidated balance sheet (see Notes 3-d and 3-j).

If at the consolidated balance sheet date the Group does not hold all the CO_2 emission allowances required to cover the emissions made, the cost and the provision for this portion is recognised on the basis of the best estimate of the price that the Group will have to pay to acquire them. When a more appropriate estimate does not exist, the estimated acquisition price for the allowances not held by the Group is the market price at the date of the consolidated balance sheet.

At 31 December 2005, the provision included in the consolidated balance sheet in respect of the emissions made by the Group in 2005 amounted to EUR 579 million. Of this amount, EUR 370 million will be covered by the emission allowances received in the related national assignment plans and EUR 157 million will be covered by the allowances acquired during the year. The remaining EUR 52 million relate to allowances not yet acquired at 31 December 2005.

l) Translation of foreign currency balances

Transactions in currencies other than the functional currency of each company are recorded in the functional currency of the Group (euros) by applying the exchange rates prevailing at the date of the transaction. During the year, the differences that arise between the balances translated at the exchange rate prevailing at the date of the transaction and the balances translated at the exchange rate prevailing at the date of collection or payment are recorded as finance costs or finance income in the consolidated income statement.

Also, balances receivable or payable at 31 December each year denominated in currencies other than the functional currencies in which the financial statements of the consolidated companies are denominated are translated to euros at the year-end exchange rates. The resulting translation differences are recognised as finance costs or finance income in the consolidated income statement.

Since 1 January 2004, the Group's policy has been to hedge a portion of the income of the Latin American companies that are directly linked to the performance of the US dollar through the obtainment of financing in US dollars. Since these transactions constitute cash flow hedges, the exchange differences arising on the debt in US dollars are recorded, net of the related tax effect, to the heading "Equity – Unrealised Asset and Liability Revaluation Reserve" (see Note 13) and are allocated to the consolidated income statement over the period in which the hedged cash flows will arise, which has been estimated to be ten years.

m) Classification of balances as current and non-current

In the accompanying consolidated balance sheet, balances maturing within 12 months are classified as current and those maturing within more than 12 months as non-current.

Loans maturing at short term but whose long-term refinancing is assured at the Company's discretion through long-term credit facilities are classified as non-current liabilities. At 31 December 2004 and 2005, these balances amounted to EUR 2,069 million and EUR 2,740 million, respectively.

n) Income tax

Income tax is recognised in the consolidated income or in equity accounts in the consolidated balance sheet depending on where the profits or losses giving rise to it have been recognised. Differences between the carrying amount of the assets and liabilities and their tax bases give rise to deferred tax assets and liabilities, which are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Changes in the year in the deferred tax assets and liabilities that do not arise from business combinations are recognised in the consolidated income statement or directly in equity accounts in the consolidated balance sheet, as appropriate.

Deferred tax assets and liabilities arising from business combinations which are not recognised on the acquisition of the controlling interest because their recovery is not assured are recognised by reducing, where appropriate, the carrying amount of goodwill recognised when the business combination was accounted for or, if no such goodwill exists, using the general method.

Deferred tax assets are only recognised to the extent that it is expected that there will be sufficient taxable profits against which the tax assets for temporary differences can be utilised.

Tax credits arising from economic events occurring in the year are deducted from the income tax expense, unless there are doubts as to whether they can be realised, in which case they are not recognised until they have effectively been realised, or unless they relate to specific tax incentives, in which case they are recognised as grants.

ñ) Recognition of income and expenses

Revenues and expenses are recognised on an accrual basis.

Revenue is recognised when the gross inflow of economic benefits arising in the course of the Group's ordinary activities in the year, provided that this inflow of economic benefits results in increases in equity other than those relating to contributions from equity participants and that these benefits can be measured reliably. Revenue is valued at the fair value of the consideration received or receivable arising therefrom.

Revenue associated with the rendering of services is only recognised if it can be estimated reliably, by reference to the stage of completion of the transaction at the balance sheet date.

The Group excludes from the revenue figure gross inflows of economic benefits received by it when it acts as an agent or commission agent on behalf of third parties, and only recognises as revenue economic benefits received and receivable by it on its own account.

When goods or services are exchanged or swapped for goods or services which are of a similar nature, the exchange is not regarded as a transaction which generates revenue.

The Group records for the net amount non-financial asset purchase or sale contracts settled for the net amount of cash or through some other financial instrument. Contracts entered into and maintained for the purpose of receiving or delivering these non-financial assets are recognised on the basis of the contractual terms of the purchase sale or usage requirements expected by the entity.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

o) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

The Group did not perform any transactions of any kind leading to diluted earnings per share other than the basic earnings per share.

p) Dividends

The interim dividend out of the 2005 profit of Endesa S.A. approved by the Board of Directors on 15 November 2005, amounting to EUR 323 million, is presented as a deduction from the Group's equity. However, the final dividend proposed by the Board of Directors of Endesa, S.A. to the shareholders at the Annual General Meeting is not deducted from equity until is has been approved by the latter.

q) Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are investments with a term of less than three months, which are highly liquid and subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings.

4. Industry regulation and functioning of the electricity system

a) Spain:

General issues

The electricity industry in Spain is basically regulated in Electricity Industry Law 54/1997, of 27 November. The main features of this Law and subsequent implementing regulations are as follows:

– 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.

– 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 tariffs applicable throughout Spain.

– Since 1 January 2003, all consumers of electricity have been eligible customers and, therefore, they can freely choose whether to acquire their power under the regulated tariff or to buy it in the liberalised market, either directly or through a retailer.

– The Electricity Industry Law recognises the existence of certain costs relating to the transition to a competitive market for the utilities owning the electricity production facilities that at 31 December 1997, were included in the scope of application of Royal Decree 1538/1987, of 11 December, on the determination of the electricity tariff for the electricity service management companies (see Note 25).

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 19 December 2003, Royal Decree 1747/2003 was passed. This Royal Decree, which came into force on 1 January 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.

<u>Nonmainland compensation payments</u>

In 2002 the government recognised an account payable to Endesa for the excess costs relating to the nonmainland systems for 2001 and 2002 amounting to EUR 133 million. This amount will be recovered through the total electricity system income until 2010, and the collection right can be securitised. The balances receivable in this connection recorded on the asset side of the consolidated balance sheets at 31 December 2005 and 2004, amount to EUR 86 million and EUR 103 million, respectively (see Note 10).

Also, in 2005 and 2004 the Group's directors made a conservative estimate of the additional income that could arise from applying Royal Decree 1747/2003, and recorded additional income of EUR 389 million and EUR 122 million in this connection in 2005 and 2004, respectively, which is recorded on the asset side of the accompanying consolidated balance sheet (see Note 10). The estimate at 31 December 2005, was made on the basis of the quantification by the Spanish National Energy Commission ("CNE") in its report on Royal Decree 1556/2005 approving the electricity tariff for 2006. In its report, CNE makes reference to the report previously sent by it to the Ministry of Industry, Tourism and Trade in relation to the draft Ministerial Orders that had previously been sent to it for its mandatory report. The criteria adopted in the CNE report are more restrictive than those used in the draft Ministerial Orders and, therefore, the figure recorded is lower than that that would be derived from the Orders. Of the total amount recorded, in 2005 EUR 203 million related to the estimate of the income revision for 2001-2004 and EUR 9 million relate to interest.

The Group's directors consider that the definitive amounts for 2005 and 2004 will under no circumstances be lower than the amounts recorded.

<u>Electricity tariff</u>

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

The aforementioned Royal Decree initially limited the annual change in the average tariff to a maximum of 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 tariff 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%).

The tariff setting methodology contained in Royal Decree 1432/2002 establishes, among the costs that must be taken into account in calculating the average or reference tariff, the amount required to guarantee the full recovery of the balance of the costs of transition to competition ("CTCs") before 31 December 2010. However, it was established that, if by applying a straight-line CTC recovery assumption it were observed that the balance of CTCs receivable at 31 December 2010, was not zero, when calculating the average or reference tariff the government would apply an increase equal to 1.40%.

Also, in calculating the average or reference electricity tariff, the government can take into account the costs derived from changes in the legislation regulating the remuneration of the electricity activities. As a result, Royal Decree 1556/2005 approving the electricity tariff for 2006 established an average increase in the electricity tariff of 4.48%.

Financing of the shortfall in income from regulated activities

Under Royal Decree-Law 5/2005, of 11 March, if the regulated income of the electricity system is not sufficient to cover the costs of the regulated activities, this shortfall must be financed by the utilities indicated in the Royal Decree-Law on the basis of the percentages established therein. The Group's Parent, Endesa, must finance 44.16% of the shortfall in income from regulated activities.

In 2005 the estimated shortfall in income from regulated activities amounted to EUR 3,580 million, of which Endesa must finance EUR 1,581 million.

Under Article 1 of Royal Decree 1556/2005, of 23 December, establishing the electricity tariff for 2006, on 1 July 2006, after the necessary measures have been taken and the appropriate reports have been prepared, the government, by Royal Decree, will approve or modify the average or reference tariff, and will review the costs derived from the activities required to supply electricity, the ongoing system costs and the diversification and security of supply costs, including the reimbursement, out of the proceeds from sales under the tariff system in subsequent years, of the negative balances resulting from the settlements made, based on the methodology in force, by the Spanish National Energy Commission, relating to the tariff for 2005, to each of the electric utilities included in section I.9 of Schedule I of Royal Decree 2017/1997, of 26 December, in respect of the amounts actually contributed by each utility, including the related accrued interest.

The heading "Non-Current Financial Assets" on the asset side of the accompanying consolidated balance sheet includes the financial assets derived from this financing provided by the Company amounting to EUR 1,581 million (see Note 10).

The recovery of the financing of the shortfall in income from regulated activities and the nonmainland compensation payments in no case depends on the future sales of the Group.

CO_2 emission allowances

Also, Royal Decree 1866/2004 regulating Spanish National CO_2 Emission Allowances Plan for 2005-2007 was approved in 2004. In accordance with this legislation, ENDESA must have allowances for CO_2 emissions made on or after 1 January 2005. Royal Decree 60/2005 approved the assignment for no consideration of individual emission allowances for each facility for 2005-2007. ENDESA was assigned emission allowances for the emission of 120.1 million tonnes of CO_2 in that period. If the emissions made exceed the volume of allowances assigned, it will be necessary to acquire emission rights in the market.

Radioactive waste management

Royal Decree-Law 5/2005 and Law 24/2005 on reforms to increase productivity amended the Electricity Industry Law, among other things, to establish the obligation for the owners of the nuclear facilities to make a financial contribution to Enresa for the costs relating to the management of radioactive waste and fuel consumed at the nuclear power plants from 31 March 2005, and for their decommissioning and shut-down. Until 1 April 2005, the financing of these costs continued to be a diversification and security of supply cost covered by the electricity tariff. The financial contribution takes the form of a payment by the owners of the nuclear plants of a variable amount obtained by multiplying a unit value in euro cents assigned to each facility by the kWh of power produced by the facility.

Should production cease early for reasons not attributable to the owner, any shortfall in the funds received by Enresa will be treated as a diversification and security of supply cost. Otherwise, the owner must make good the shortfall within the three years following the date on which production ceases.

b) Europe:

Italy:

Market liberalisation and tariffs

Work is continuing on the liberalisation of the Italian energy market. Since 1 January 2005, the energy authorities, through “Delibera 253/04” and successive amendments, have authorised the active participation of the demand side of the market, allowing wholesalers and large customers to purchase their power on the power exchange with hourly bids. Under Law 239, since 2004 all customers, except residential consumers, have been eligible customers. The full liberalisation of the market has been set for 1 July 2007.

The power exchange is articulated through the following markets:

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

In 2005 the System Manager confirmed the remuneration mechanism for operators offering plant availability on days of critical consumption for the coverage of national demand (Capacity Payment), which comprises a fixed component and a variable component, based on the remuneration envisaged for the operators if they had still operated in the regulated market.

Decree-Law 6/8/2004 established the amounts of costs of transition to competition to be received by the producers. This Decree-Law recognised the entitlement of the producers to receive a total of EUR 850 million for that period, of which EUR 169 million corresponded to Endesa Italia, S.p.A. In December 2004 this mechanism was approved by the European Commission and on 23 June 2005, a Decree-Law was published that recognised Endesa Italia, S.p.A.’s entitlement to receive that amount of costs of transition to competition of the generating facilities and established the schedule for collecting the recognised amounts, which will span the period from 2005 to 2009. The income received in this connection is being recognised in the income statement on the basis of the useful lives of the assets and, therefore, this remuneration was recognised. The consolidated income statement for 2005 includes income of EUR 33 million in this respect, and the accompanying consolidated balance sheet at 31 December 2005, includes EUR 120 million under the asset heading “Non-Current Financial Assets” in relation to the outstanding balance receivable (see Note 10) and EUR 136 million under the liability heading “Deferred Income” in relation to the income not yet recognised in the consolidated income statement.

The Emission Trading System provided for in Community Directive 2003/87/EC has been operating in Italy since 1 January 2005. In December 2005 the government approved the national emission allowance assignment plan. At 31 December 2005, this plan had not yet been approved by the European Union.

On 1 November 2005, the integration of the title to and the management of the Italian transmission system (“GRTN”) was completed with the acquisition by Terna S.p.A. of the system programming, development and services activities of GRTN S.p.A. Since November GRTN has been responsible for developing and providing incentives for renewable energy and other activities of a public service nature.

France:

On 13 June 2005 the Energy Orientation Law was approved. This Law defines the energy objectives and policies in France and rounds off the current legislation on demand management, renewable energies and electricity transmission and distribution system quality. The Law establishes measures that ensure a sufficient level of investment in generating facilities and networks to guarantee the quality and security of supply of electricity.

The national CO_2 allowance assignment plan was established for 2005-2007 through Decree no. 2005-190, of 25 February 2005. The overall assignment for the emissions of Snet in this period is 6.8 million tonnes of CO_2.

c) 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 liberalised markets in which private-sector players take investment decisions freely based on the authorities' guidelines. The exception is Brazil, where the new generating capacity needs are identified by the Ministry, and the related investments are made through a system of energy bids made by the players.

In all the countries there is a centralised dispatching system based on variable production costs which seek to optimise the available production resources. These variable costs determine the marginal generation price, except in Colombia, where dispatching is based on bids tendered by the players.

Distribution:

In the five countries in which the Group operates, the selling price to customers is based on the price at which electricity is purchased from producers plus a component associated with the aggregate distribution price. Periodically, the regulator sets this price through distribution tariff revision processes. Accordingly, distribution is an essentially regulated activity.

In Argentina, Chile and Peru the purchase price for the distributors is tied to a producer purchase price calculated by the regulator, which is revised periodically. In Brazil the purchase price is based on the average prices in the bids for existing power and new power. 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. In 2005 the Corta II Law was approved in Chile, which will permit a power purchase mechanism in power bidding arrangements.

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

Country	Minimum MW
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:

In general, the legislation in force defends free competition and defines criteria for preventing certain levels of economic concentration and/or market practices from damaging this competition.

In principle, companies can engage in different activities (generation, distribution, retailing) provided that there is an appropriate degree of unbundling for both accounting and corporate purposes. If this is permitted, it is in the transmission business in which the greatest restrictions are generally imposed, due mainly to its nature and to the need to guarantee adequate access to all players. In Argentina and Colombia there are specific restrictions on producers or distributors being majority stockholders of transmission companies.

Additionally, in Colombia companies formed after 1994 may not be vertically integrated. Producers may not have ownership interests exceeding 25% in distributors, and vice versa. In Peru companies with a share of over 5% in a given business require authorisation 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 a specific business, in Argentina, Chile and Peru there are no specific restrictions on ownership percentages. The law only safeguards competition, and prohibits acts involving unfair trading or abuse of dominant position in the market. The legislation in force establishes that the regulator must authorise 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 legislation currently in force requires the legal unbundling of the various electricity activities, making deverticalisation 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 share capital of other electricity business companies. Also, producers cannot own equity interests in distribution companies.

In Colombia the maximum limit for horizontal concentration in the generation, distribution and retailing activities is 25%.

System access:

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

5. Property, plant and equipment

The detail of the balance of Property, Plant and Equipment at 31 December 2005 and 2004, and of the changes therein in 2005 and 2004 is as follows:

	31/12/05				
	Millions of Euros				
Operating property, plant and equipment	Cost	Accumulated Depreciation	Carrying Amount	Property, plant and equipment in the course of construction	Total Property, Plant and Equipment
Land and structures	2,447	(1,075)	1,372	17	1,389
Electricity generating facilities:	35,576	(19,238)	16,338	1,735	18,073
Hydroelectric power plants	11,841	(5,232)	6,609	148	6,757
Coal-fired/fuel-oil power plants	12,146	(8,452)	3,694	564	4,258
Nuclear power plants	8,213	(5,031)	3,182	60	3,242
Combined cycle plants	2,629	(296)	2,333	609	2,942
Renewable energy plants	747	(227)	520	354	874
Transmission and distribution facilities:	18,855	(8,056)	10,799	1,459	12,258
High-voltage	2,302	(858)	1,444	205	1,649
Low- and medium-voltage	14,568	(6,103)	8,465	1,144	9,609
Measuring and remote control Equipment	1,626	(912)	714	54	768
Other facilities	359	(183)	176	56	232
Other property, plant and equipment	1,687	(1,186)	501	92	593
TOTAL	**58,565**	**(29,555)**	**29,010**	**3,303**	**32,313**

	31/12/04				
	Millions of Euros				
Operating property, plant and equipment	Cost	Accumulated Depreciation	Carrying Amount	Property, plant and equipment in the course of construction	Total Property, Plant and Equipment
Land and structures	2,349	(1,017)	1,332	7	1,339
Electricity generating facilities:	33,191	(17,879)	15,312	1,311	16,623
Hydroelectric power plants	10,628	(4,523)	6,105	134	6,239
Coal-fired/fuel-oil power plants	11,829	(8,127)	3,702	238	3,940
Nuclear power plants	8,130	(4,890)	3,240	58	3,298
Combined cycle plants	2,011	(180)	1,831	669	2,500
Renewable energy plants	593	(159)	434	212	646
Transmission and distribution facilities:	16,648	(7,128)	9,520	882	10,402
High-voltage	1,631	(586)	1,045	162	1,207
Low- and medium-voltage	13,328	(5,374)	7,954	627	8,581
Measuring and remote control Equipment	1,358	(803)	555	43	598
Other facilities	331	(365)	(34)	50	16
Other property, plant and equipment	1,614	(1,205)	409	137	546
TOTAL	**53,802**	**(27,229)**	**26,573**	**2,337**	**28,910**

Operating property, plant and equipment	Millions of Euros						
	Balance at 31/12/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/05
Land and structures	2,349	-	70	(16)	3	41	2,447
Electricity generating facilities:	33,191	98	233	(190)	696	1,548	35,576
Hydroelectric power plants	10,628	-	25	(2)	(97)	1,287	11,841
Coal-fired/fuel-oil power plants	11,829	(3)	95	(166)	260	131	12,146
Nuclear power plants	8,130	-	11	(22)	94	-	8,213
Combined cycle plants	2,011	-	63	-	425	130	2,629
Renewable energy plants	593	101	39	-	14	-	747
Transmission and distribution facilities:	16,648	-	10	(53)	1,309	941	18,855
High-voltage	1,631	-	2	(8)	358	319	2,302
Low- and medium-voltage	13,328	-	5	(28)	718	545	14,568
Measuring and remote control equipment	1,358	-	3	(17)	222	60	1,626
Other facilities	331	-	-	-	11	17	359
Other property, plant and equipment	1,614	(2)	29	(46)	7	85	1,687
TOTAL	**53,802**	**96**	**342**	**(305)**	**2,015**	**2,615**	**58,565**

Property, plant and equipment in the course of construction	Millions of Euros						
	Balance at 31/12/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/05
Land and structures	7	-	37	-	(27)	-	17
Electricity generating facilities:	1,311	10	1,061	(6)	(652)	11	1,735
Hydroelectric power plants	134	-	65	(4)	(57)	10	148
Coal-fired/fuel-oil power plants	238	(4)	413	-	(84)	1	564
Nuclear power plants	58	-	72	-	(70)	-	60
Combined cycle plants	669	-	375	-	(435)	-	609
Renewable energy plants	212	14	136	(2)	(6)	-	354
Transmission and distribution facilities:	882	-	1,769	-	(1,253)	61	1,459
High-voltage	162	-	152	-	(125)	16	205
Low- and medium-voltage	627	-	1,383	-	(901)	35	1,144
Measuring and remote control equipment	43	-	112	-	(106)	5	54
Other facilities	50	-	122	-	(121)	5	56
Other property, plant and equipment	137	-	49	-	(101)	7	92
TOTAL	**2,337**	**10**	**2,916**	**(6)**	**(2,033)**	**79**	**3,303**

Accumulated depreciation	Millions of Euros						
	Balance at 31/12/04	Inclusion/ Exclusion of Companies	Charge for The Year (*)	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/05
Land and structures	(1,017)	-	(58)	4	-	(4)	(1,075)
Electricity generating facilities:	(17,879)	(6)	(974)	167	(3)	(542)	(19,238)
Hydroelectric power plants	(4,523)	-	(273)	1	26	(463)	(5,232)
Coal-fired/fuel-oil power plants	(8,127)	6	(401)	155	(26)	(58)	(8,452)
Nuclear power plants	(4,890)	-	(152)	11	-	-	(5,031)
Combined cycle plants	(180)	-	(102)	-	7	(21)	(296)
Renewable energy plants	(159)	(12)	(46)	-	(10)	-	(227)
Transmission and distribution facilities:	(7,128)	-	(583)	37	(33)	(349)	(8,056)
High-voltage	(586)	-	(81)	5	(85)	(111)	(858)
Low- and medium-voltage	(5,374)	-	(404)	18	(133)	(210)	(6,103)
Measuring and remote control equipment	(803)	-	(84)	14	(22)	(17)	(912)
Other facilities	(365)	-	(14)	-	207	(11)	(183)
Other property, plant and equipment	(1,205)	2	(51)	39	56	(28)	(1,186)
TOTAL	**(27,229)**	**(4)**	**(1,666)**	**247**	**20**	**(923)**	**(29,555)**

(*) Also, in 2005 impairment losses amounting to EUR 26 million were recognised.

Operating property, plant and equipment	Millions of Euros						
	Balance at 01/01/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/04
Land and structures	1,947	289	59	(25)	66	13	2,349
Electricity generating facilities:	30,538	1,557	302	(311)	1,049	56	33,191
Hydroelectric power plants	9,937	-	70	(3)	547	77	10,628
Coal-fired/fuel-oil power plants	10,310	1,512	90	(288)	212	(7)	11,829
Nuclear power plants	8,098	-	10	(7)	29	-	8,130
Combined cycle plants	1,561	-	125	(12)	352	(15)	2,011
Renewable energy plants	632	45	7	(1)	(91)	1	593
Transmission and distribution facilities:	15,640	-	107	(97)	973	25	16,648
High-voltage	1,503	-	72	(11)	79	(12)	1,631
Low- and medium-voltage	12,562	-	32	(81)	775	40	13,328
Measuring and remote control equipment	1,246	-	3	(3)	115	(3)	1,358
Other facilities	329	-	-	(2)	4	-	331
Other property, plant and equipment	1,507	11	29	(21)	102	(14)	1,614
TOTAL	**49,632**	**1,857**	**497**	**(454)**	**2,190**	**80**	**53,802**

Property, plant and equipment in the course of construction	Millions of Euros Balance at 01/01/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/04
Land and structures	15	-	24	-	(32)	-	7
Electricity generating facilities:	1,689	30	761	(5)	(1,164)	-	1,311
Hydroelectric power plants	689	-	50	(2)	(604)	1	134
Coal-fired/fuel-oil power plants	131	26	204	-	(121)	(2)	238
Nuclear power plants	60	-	47	-	(49)	-	58
Combined cycle plants	762	-	297	(3)	(388)	1	669
Renewable energy plants	47	4	163	-	(2)	-	212
Transmission and distribution facilities:	679	-	1,211	(1)	(1,001)	(6)	882
High-voltage	163	-	90	-	(89)	(2)	162
Low- and medium-voltage	431	-	957	(1)	(762)	2	627
Measuring and remote control equipment	35	-	107	-	(99)	-	43
Other facilities	50	-	57	-	(51)	(6)	50
Other property, plant and equipment	78	3	80	(2)	(24)	2	137
TOTAL	**2,461**	**33**	**2,076**	**(8)**	**(2,221)**	**(4)**	**2,337**

Accumulated Depreciation	Millions of Euros Balance at 01/01/04	Inclusion/ Exclusion of Companies	Charge for The Year	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/04
Land and structures	(841)	(150)	(47)	13	(1)	9	(1,017)
Electricity generating facilities:	(16,431)	(866)	(873)	264	25	2	(17,879)
Hydroelectric power plants	(4,310)	3	(215)	2	2	(5)	(4,523)
Coal-fired/fuel-oil power plants	(7,045)	(860)	(400)	257	(81)	2	(8,127)
Nuclear power plants	(4,743)	-	(151)	4	-	-	(4,890)
Combined cycle plants	(110)	3	(78)	-	-	5	(180)
Renewable energy plants	(223)	(12)	(29)	1	104	-	(159)
Transmission and distribution facilities:	(6,654)	-	(571)	78	29	(10)	(7,128)
High-voltage	(530)	-	(67)	10	-	1	(586)
Low- and medium-voltage	(5,077)	-	(356)	41	21	(3)	(5,374)
Measuring and remote control equipment	(755)	-	(74)	23	1	2	(803)
Other facilities	(292)	-	(74)	4	7	(10)	(365)
Other property, plant and equipment	(1,156)	(5)	(45)	18	(19)	2	(1,205)
TOTAL	**(25,082)**	**(1,021)**	**(1,536)**	**373**	**34**	**3**	**(27,229)**

(*) Also, in 2004 impairment losses amounting to EUR 57 million were recognised.

The detail of the investments in property, plant and equipment made in 2005 and 2004 in the various geographical areas and businesses in which the Group operates is as follows:

	Millions of Euros			
	2005			
	Generation	Distribution and Transmission	Other	Total
Spain and Portugal	943	1,389	50	2,382
Rest of Europe	185	-	91	276
Latin America	166	390	44	600
TOTAL	**1,294**	**1,779**	**185**	**3,258**

	Millions of Euros			
	2004			
	Generation	Distribution and Transmission	Other	Total
Spain and Portugal	646	1,082	92	1,820
Rest of Europe	242	-	17	259
Latin America	175	235	84	494
TOTAL	**1,063**	**1,317**	**193**	**2,573**

The investments in property, plant and equipment in the electricity generation business in Spain and Portugal include the advances made in the new capacity programme and, among other projects, the construction of the Cristóbal Colón (Huelva) 400 MW combined cycle plant and the commencement of construction work on the As Pontes (A Coruña) 800 MW combined cycle plant, conversion to the use of imported coal by units 3 and 4 of the As Pontes (A Coruña) fossil-fuel plant, and the construction of the desulphurisation plants of fossil-fuel units 4 and 5 of the Compostilla II (León) plant, together with the measures required to reduce NO_x emissions by the fossil-fuel units of the coal-fired facilities.

The investments in property, plant and equipment in the electricity generation business in the rest of Europe relate mainly to the performance of repowering projects in Italy and, specifically, in 2004, the conversion of unit 5 of the Tavazzano power plant. In 2005 these investments included the conversion to combined cycle technology of unit 3 of the Ostiglia power plant and of unit 6 of the Tavazzano power plant, which came into service in 2005, together with the entry into service of two turbogas units at the Fiume Santo plant.

In Latin America, investments in property, plant and equipment in the electricity generation business in 2004 included, among other projects, the start-up of the Ralco 690 MW hydroelectric plant in Chile. In 2005 these investments in the generation business included, among other projects, the construction in Chile of the San Isidro II 377 MW combined cycle plant and of the Palmucho 32 MW hydroelectric plant; the construction in Peru of Etevensa's second combined cycle plant, to be called Etevensa II, and other work to convert Etevensa I to combined cycle technology.

The investments in distribution relate to network extensions and expenditure aimed at optimising the functioning thereof in order to improve the efficiency and quality of the service provided.

At 31 December 2005 and 2004, the Group had property, plant and equipment purchase commitments amounting to EUR 720 million and EUR 1,364 million, respectively.

Endesa and its subsidiaries have taken out insurance policies to cover the possible risks to which their property, plant and equipment are subject and the claims that might be filed against them for carrying on their business activities. These policies are considered to adequately cover the related risks. The loss of profit that might arise as a result of outages is also covered.

The environmental information is included in the directors' report.

6. Investment property

At 31 December 2005, the Group had properties not used in its business held mainly for sale and, therefore, they are classified in the consolidated balance sheet as investment property with a carrying amount of EUR 71 million.

The total market value at 31 December 2005, of the investment property, calculated on the basis of valuations undertaken by independent valuers, ranges from approximately EUR 462 million to approximately EUR 635 million.

7. Intangible assets

The detail of the balance of Intangible Assets and of the changes therein in 2005 and 2004 is as follows:

	Millions of Euros							
	Balance at 31/12/04	Inclusion/ Exclusion of Companies	Additions	Amortisation	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/05
CO_2 emission allowances	-	-	531	-	-	-	-	531
Computer software	212	-	71	(77)	-	(2)	8	212
Other	111	(3)	10	(7)	(3)	11	1	120
TOTAL	**323**	**(3)**	**612**	**(84)**	**(3)**	**9**	**9**	**863**

	Millions of Euros							
	Balance at 01/01/04	Inclusion/ Exclusion of Companies	Additions	Amortisation	Disposals	Transfers and Other	Translation Differences	Balance at 31/12/04
Computer software	208	-	65	(60)	(4)	3	-	212
Other	103	3	33	(22)	(4)	(6)	4	111
TOTAL	**311**	**3**	**98**	**(82)**	**(8)**	**(3)**	**4**	**323**

The amount recognised for CO_2 emission allowances includes EUR 374 million relating to allowances assigned for no consideration under the national emission allowance assignment plans of each of the European countries in which the Group operates.

The emission allowances recognised at 31 December 2005, will be delivered substantially in full in April 2006 to cover the CO_2 emissions made in 2005.

8. Goodwill

The detail, by cash-generating unit (or group of units) to which it is allocated, of goodwill and of the changes therein in 2005 and 2004 is as follows:

	Millions of Euros					
	Balance at 31/12/04	Additions	Disposals	Translation Differences	Other	Balance at 31/12/05
Endesa Italia	1,324	-	-	-	(31)	1,293
Snet	183	-	-	-	(5)	178
Finerge	-	145	-	-	-	145
Subsidiaries in Chile	1,808	3	-	557	-	2,368
Coelce	121	-	-	35	-	156
Ampla	99	-	-	12	-	111
Other	21	-	-	6	-	27
TOTAL	**3,556**	**148**	**-**	**610**	**(36)**	**4,278**

	Millions of Euros					
	Balance at 01/01/04	**Additions**	**Disposals**	**Translation Differences**	**Other**	**Balance at 31/12/04**
Endesa Italia	1,373	15	-	-	(64)	1,324
Snet	-	226	(24)	-	(19)	183
Subsidiaries in Chile	1,837	-	-	(29)	-	1,808
Coelce	174	-	(57)	4	-	121
Ampla	114	-	-	(15)	-	99
Other	21	-	-	-	-	21
TOTAL	**3,519**	**241**	**(81)**	**(40)**	**(83)**	**3,556**

The valuation of the assets and liabilities of Snet required to calculate the related goodwill was completed in 2005. After this definitive allocation, the goodwill relating to Snet amounted to EUR 178 million.

The goodwill relating to Finerge is provisional since the valuation of assets and liabilities required to definitively calculate the goodwill on the acquisition of this company had not yet been completed at the date of preparation of these consolidated financial statements.

According to the estimates and projections available to the Group's directors, the projected cash flows attributable to these cash-generating units (or groups of units) to which the goodwill is allocated will make it possible to recover the carrying amount of each item of goodwill recognised at 31 December 2005.

9. Investments accounted for using the equity method

The detail of the main Group investees accounted for using the equity method and of the changes therein in 2005 and 2004 is as follows:

	Millions of Euros								
	Balance at 31/12/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Result of Companies Accounted for Using the Equity Method	Dividends	Translation Differences	Transfers and Other	Balance at 31/12/05
Gas Atacama	111	-	-	-	9	-	13	(3)	130
Tejo Energía	83	-	5	-	6	(11)	-	4	87
Nuclenor	80	-	-	-	19	(33)	-	(3)	63
Altek	45	-	-	-	(1)	-	4	(18)	30
Tahaddart	11	-	-	-	2	-	-	9	22
Eurosviluppo	19	-	-	-	-	-	-	-	19
Elcogas	22	-	-	-	(4)	-	-	-	18
Auna	1,083	-	-	(904)	10	-	-	(189)	-
Smartcom	402	-	-	(411)	(2)	-	11	-	-
Sidec	30	-	-	(56)	8	(2)	-	20	-
NQF Gas	21	-	-	-	1	-	-	(22)	-
Other	284	(22)	1	(1)	19	(12)	6	(21)	254
TOTAL	**2,191**	**(22)**	**6**	**(1,372)**	**67**	**(58)**	**34**	**(223)**	**623**

	Millions of Euros								
	Balance at 01/01/04	Inclusion/ Exclusion of Companies	Additions	Disposals	Result of Companies Accounted for Using the Equity Method	Dividends	Translation Differences	Transfers and Other	Balance at 31/12/04
Gas Atacama	110	-	-	-	8	-	(10)	3	111
Tejo Energía	76	-	-	-	17	(10)	-	-	83
Nuclenor	78	-	-	-	14	(12)	-	-	80
Altek	-	43	-	-	1	-	1	-	45
Tahaddart	-	-	11	-	-	-	-	-	11
Eurosviluppo	-	-	19	-	-	-	-	-	19
Elcogas	-	-	24	-	(2)	-	-	-	22
Auna	819	-	261	-	10	-	-	(7)	1,083
Smartcom	229	-	187	-	(4)	-	(6)	(4)	402
Sidec	-	28	-	-	2	-	-	-	30
NQF Gas	21	-	-	-	-	-	-	-	21
Snet	435	-	-	-	6	-	-	(441)	-
Agbar	134	-	-	(135)	-	-	-	1	-
Other	245	(18)	3	(12)	27	(17)	(6)	62	284
TOTAL	**2,147**	**53**	**505**	**(147)**	**79**	**(39)**	**(21)**	**(386)**	**2,191**

The main transactions carried out by the Group in 2005 in respect of companies accounted for using the equity method were as follows (see Note 22):

- The sale of the 27.7% investment in the share capital of the telecommunications operator Auna to France Telecom España, S.A. for EUR 2,221 million under an agreement entered into on 29 July 2005, which was formally executed, once it had been approved by the European authorities, on 8 November 2005.

  The remaining 5.01% was sold to Deutsche Bank on 30 December 2005, for EUR 378 million. Endesa is entitled to receive 90% of the portion of the selling price in the first transaction made with these shares on or after 8 November 2008, that exceeds the amount of EUR 361 million capitalised at an annual rate of 4.5%.

  The gain on this sale will not be recognised until the first quarter of 2006, since at 31 December 2005, the period in which Auna's other shareholders could exercise their pre-emption rights had not yet ended. The amount collected in this transaction guarantees the delivery of these shares to Deutsche Bank, which will take place in the first quarter of 2006.

- The sale of the Group's investment in Smartcom Pcs for EUR 408 million.

- The sale of Snet's investment in the producer Séchilienne-Sidec ("Sidec") for EUR 104 million.

- The Group entered into an agreement with EDP for the sale to the latter of the 49% interest held by Endesa Gas in the Portuguese company NQF Gas SGPS, S.A. ("NQF Gas") for EUR 57 million. The transaction will be completed once certain requirements in the agreement have been met and, therefore, Endesa classified its investment in NQF Gas as Non-Current Assets Classified as Held for Sale. The carrying amount of this investment at 31 December 2005, was EUR 22 million.

The main transactions carried out by the Endesa Group in 2004 in respect of companies accounted for using the equity method were as follows:

- The investment of EUR 261 million in Auna relating to the acquisition of an additional 3% interest in this company.

- The investment of EUR 187 million in Smartcom Pcs through the conversion into share capital of non-current loans existing at the beginning of the year.

- The acquisition of an additional investment of 35% in Snet for EUR 121 million. This amount included the effect of the price adjustment envisaged in the first acquisition made in 2001. As a result of this acquisition, Snet was fully consolidated and, therefore, the investment existing at the beginning of 2004 was derecognised from the balance of Investments Accounted for Using the Equity Method.

Following is information at 31 December 2005, from the financial statements of the main companies over which the Group holds joint control:

Company	31/12/05					
	Millions of Euros					
	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Revenue	Ordinary Expenses
Nuclenor	150	121	55	62	210	101
Ergon Energía	-	75	-	73	383	381
Tejo Energía	510	106	360	71	228	194
Pegop	8	-	-	3	19	3
Carbopego	21	-	11	-	98	94
Gas Atacama	1,114	221	615	170	206	172

The main economic and financial aggregates of the other companies over which the Endesa Group exercises joint control and those of the companies over which it exercises significant influence are not material.

10. Non-current financial assets

The detail of Non-Current Financial Assets in the accompanying consolidated balance sheet and of the changes therein in 2005 and 2004 is as follows:

	Millions of Euros							
	Balance at 31/12/04	First-Time Application of IASs 32 and 39	Additions or Charge for The Year	Disposals or Reductions	Value Adjustment against Reserves (*)	Translation Differences	Transfers and Other	Balance at 31/12/05
Loans and receivables	1,100	(109)	2,397	(152)	-	98	40	3,374
Available-for-sale investments	241	41	5	(37)	237	1	176	664
Financial derivatives (Note 18)	-	154	16	-	(28)	-	-	142
Impairment loss	(45)	-	(12)	13	-	(1)	(1)	(46)
TOTAL	**1,296**	**86**	**2,406**	**(176)**	**209**	**98**	**215**	**4,134**

(*) Recognised under the heading "Equity – Unrealised Asset and Liability Revaluation Reserve" (see Note 13).

	Millions of Euros						
	Balance at 01/01/04	Additions or Charge for The Year	Disposals or Reductions	Value Adjustment against Reserves	Translation Differences	Transfers and Other	Balance at 31/12/04
Loans and receivables	1,337	148	(185)	-	(2)	(198)	1,100
Available-for-sale investments	441	26	(54)	-	(5)	(167)	241
Impairment loss	(90)	(8)	33	-	-	20	(45)
TOTAL	**1,688**	**166**	**(206)**	**-**	**(7)**	**(345)**	**1,296**

Loans and receivables

The detail of Loans and Receivables at 31 December 2005 and 2004, is as follows:

	Millions of Euros	
	Balance at 31/12/05	Balance at 31/12/04
Financing of the shortfall in income from regulated activities in Spain (Note 4-a)	1,581	-
Additional non-mainland system compensation (Note 4-a)	579	225
Costs of transition to competition of Endesa Italia (Note 4-b)	120	-
Guarantees and deposits	365	320
Loans to associates	269	122
Loans to employees	156	110
Other loans	304	323
TOTAL	**3,374**	**1,100**

The detail, by maturity, at 31 December 2005, of the non-current and current loans to associates is as follows:

	Millions of Euros							
	Balance at 31/12/05	Current Maturity	Non-Current Maturities					
		2006	2007	2008	2009	2010	Subsequent Years	Total
Euro loans	123	1	2	1	2	-	117	122
Foreign currency loans	147	-	147	-	-	-	-	147
TOTAL	**270**	**1**	**149**	**1**	**2**	**-**	**117**	**269**

These loans earned average interest at 4.33% in 2005.

Available-for-sale investments

In 2005 the 5.01% interest in Auna amounting to EUR 359 million was included under this heading. Of this amount, which relates to the fair value of the investment at year-end, EUR 196 million were recognised under the heading “Equity – Asset and Liability Revaluation Reserve” (see Note 13).

This heading also includes the Group’s investment of 3% in Red Eléctrica de España, S.A. (“Red Eléctrica”) recognised for EUR 106 million, of which EUR 80 million are recorded under the heading “Equity – Asset and Liability Revaluation Reserve” (see Note 13). Under Royal Decree-Law 5/2005, of 11 March, the Group must reduce its investment in Red Eléctrica to 1% before 1 January 2008.

11. Inventories

The detail of this heading at 31 December 2005 and 2004, is as follows:

	Millions of Euros	
	31/12/05	**31/12/04**
Fuel stocks:	623	634
Nuclear fuel	253	216
Other	370	418
Other inventories	205	153
Value adjustment	(16)	(31)
TOTAL	**812**	**756**

The fuel stock purchase commitments at 31 December 2005, amounted to EUR 2,318 million, assuming the market price at 31 December 2005, in the cases in which prices are tied to market prices. A portion of these commitments relates to natural gas purchase agreements with “take or pay” clauses. The Company’s directors consider that the Group will be able to fulfil these commitments and, therefore, they do not expect any contingency to arise in this connection.

12. Trade and other receivables

The detail of this heading at 31 December 2005 and 2004, is as follows:

Trade and Other Receivables	Millions of Euros	
	31/12/05	**31/12/05**
Trade receivables for sales	4,397	3,421
Tax assets:	864	466
Spanish corporation tax	456	217
Other taxes	408	249
Other receivables	1,186	745
Value adjustment	(349)	(250)
TOTAL	**6,098**	**4,382**

The average trade receivable collection period is 27 days.

13. Equity

The detail of the Group’s Equity at 31 December 2005 and 2004, and of the changes therein is as follows:

	Share Capital	Share Premium	Legal Reserve	Revaluation Reserve	Restricted Reserves	Translation Differences	Unrealised Asset and Liability Revaluatio n Reserve	Retained Earnings	Interim Dividend	Total Equity of the Parent	Equity of Minority Interests	Total Equity
Balance at 01/01/04	**1,271**	**1,376**	**285**	**1,714**	**178**	**-**	**-**	**3,635**	**(280)**	**8,179**	**4,751**	**12,930**
Distribution of profit	-	-	-	-	-	-	-	(733)	280	(453)	(196)	(649)
Income and expenses recognised in equity	-	-	-	-	-	(20)	57	-	-	37	186	223
Profit for the year	-	-	-	-	-	-	-	1,253	-	1,253	408	1,661
Interim dividend	-	-	-	-	-	-	-	-	(288)	(288)	-	(288)
Inclusion/Exclusion of companies	-	-	-	-	-	-	-	-	-	-	265	265
Other payments to shareholders	-	-	-	-	-	-	-	-	-	-	(9)	(9)
Transfers between reserves	-	-	-	-	(8)	-	-	8	-	-	-	-
Balance at 31/12/04	**1,271**	**1,376**	**285**	**1,714**	**170**	**(20)**	**57**	**4,163**	**(288)**	**8,728**	**5,405**	**14,133**
First-time application of IASs 32 and 39	-	-	-	-	-	-	(49)	(143)	-	(192)	(1,574)	(1,766)
Distribution of profit	-	-	-	-	-	-	-	(782)	288	(494)	(216)	(710)
Income and expenses recognised in equity	-	-	-	-	-	749	187	(209)	-	727	693	1,420
Profit for the year	-	-	-	-	-	-	-	3,182	-	3,182	575	3,757
Interim dividend	-	-	-	-	-	-	-	-	(323)	(323)	-	(323)
Inclusion/Exclusion of companies	-	-	-	-	-	-	-	-	-	-	113	113
Other payments to shareholders	-	-	-	-	-	-	-	(14)	-	(14)	(283)	(297)
Corporate restructuring	-	-	-	-	-	-	-	(24)	-	(24)	24	-
Balance at 31/12/05	**1,271**	**1,376**	**285**	**1,714**	**170**	**729**	**195**	**6,173**	**(323)**	**11,590**	**4,737**	**16,327**

13.1. Equity: Of the Parent

Share capital

At 31 December 2005, the share capital of Endesa, S.A. amounted to EUR 1,270,502,540.40 and was represented by 1,058,752,117 fully subscribed and paid shares of EUR 1.2 par value each, all of which are listed on the Spanish Stock Exchanges. There were no changes in 2004 or 2005.

At 31 December 2005, 22,676,060 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.

On 5 September 2005, Gas Natural SDG, S.A. requested from the Spanish National Securities Market Commission ("the CNMV") authorisation to launch a takeover bid for all the shares of Endesa, S.A. At the date of preparation of these consolidated financial statements, this takeover bid was subject to the authorisation of the related authorities.

Share premium

The consolidated Corporations Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

Legal reserve

Under the consolidated Corporations Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

The Group's Parent has recorded the legal reserve in full.

Revaluation reserve

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

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

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

Translation differences

The detail, by company, of translation differences net of taxes in the consolidated balance sheets at 31 December 2005 and 2004, is as follows:

	Millions of Euros	
	31/12/05	**31/12/04**
Ampla	39	2
Betania	33	7
Cachoeira Dourada	39	2
Fortaleza	20	(1)
Chilectra	(7)	(3)
Cien	24	1
Edesur	3	(11)
Emgesa	85	26
Endesa Chile	(35)	(4)
Enersis	(114)	(39)
Investluz/Coelce	27	1
Codensa	116	31
Pehuenche	19	-
Bialystok	8	4
Smartcom	-	(6)
Subsidiaries in Chile	438	(27)
Other	34	(3)
TOTAL	**729**	**(20)**

Interim dividend

The interim dividend approved by the Board of Directors of Endesa, S.A. on 15 November 2005, amounts to EUR 0.305 gross per share, giving a total of EUR 323 million, which was deducted from the Parent's equity.

Treasury shares

As authorised by the shareholders at the General Meetings on 19 June 2003 and 2 April 2004, and to facilitate trading liquidity at specific times, in 2004 ENDESA acquired 10,491,164 treasury shares for EUR 154 million for an average price of EUR 14.65 per share, and sold 12,580,825 shares for EUR 198 million for an average price of EUR 15.73 per share, giving rise to a gain of EUR 16 million with respect to the acquisition price.

As authorised by the shareholders at the General Meetings on 2 April 2004 and 27 May 2005, and to facilitate trading liquidity at specific times. In 2005 ENDESA, S.A. acquired 250,613 treasury shares for EUR 4 million for an average price of EUR 17.91 per share, and sold 250,613 shares for EUR 4 million for an average price of EUR 18.51 per share.

At 31 December 2005, Endesa did not hold any treasury shares.

Restrictions on the distribution of funds by subsidiaries

Certain Group companies have clauses in their financing contracts that have to be met in order to be able to distribute profits to shareholders. Also, certain companies have assets that are securing payables to creditors. The assets of the companies subject to these restrictions amount to EUR 971 million.

Endesa is subject to the system of notices pursuant to Royal Decree 929/1998 and Law 5/1995 on the legal regime governing the disposal of public shareholdings in certain companies whereby it is necessary to inform the authorities, under certain circumstances, of acts and resolutions involving the acquisition of shares, or other similar equity interests, representing at least 10% of the share capital of Endesa, S.A., Endesa Generación, S.A. and Endesa Distribución Eléctrica, S.L. However, in the case of Endesa, S.A., purely financial acquisitions not aimed at participating in its control and/or management are excepted from this system of notices.

Also subject to this regime are corporate acts and resolutions involving the sale or charging of the shares or other equity interests of Endesa Generación, S.A. and Endesa Distribución Eléctrica, S.L. owned by Endesa, S.A.

The authorities may only oppose the act or resolution reported if they justifiably appreciate the existence of significant risks or negative effects, be they direct or indirect, on the business activities carried on by the companies, in order to guarantee the appropriate management of the companies and of the provision of services by them, in conformity with certain objective criteria contained in the related legislation.

Lastly, it should be noted that in December 2005 the Spanish government presented in Parliament a draft law that, if it were passed without any amendment, would repeal Royal Decree 929/1998 and Law 5/1995, thereby eliminating the Spanish legal regime governing the disposal of public shareholdings in certain companies.

13.2. Equity: Of minority interests

The main changes in this heading as a result of transactions carried out in 2005 and 2004 are described below.

In 2004 Snet started to be fully consolidated and, as a result, EUR 41 million were included under Equity – Of Minority Interests.

In 2005 EUR 137 million were included as a result of the sale of 5.33% of the investment in Endesa Italia, S.p.A. This sale gave rise to a gain of EUR 24 million, and this amount was recorded under the heading “Income from Sale of Assets” in the accompanying consolidated income statement (see Note 22).

In 2004, since IASs 32 and 39 were not applied, the preference shares amounting to EUR 1,500 million issued by the Group were recorded under this heading in the consolidated balance sheet. In 2005 they were classified as a liability under Non-Current Liabilities – Bank Borrowings and Other Financial Liabilities (see Note 16).

14. Deferred income

The changes in the balance of this heading in the accompanying consolidated balance sheet in 2005 and 2004 were as follows:

	Millions of Euros		
	Grants and Fixed Charges for Connection	**Emission Allowances** (See Notes 7 and 20)	**Total**
Balance at 01/01/04:	**1,347**	**-**	**1,347**
Inclusion/Exclusion of companies	8	-	8
Additions	248	-	248
Translation differences	(4)	-	(4)
Amount taken to income	(52)	-	(52)
Other	(12)	-	(12)
Balance at 31/12/04:	**1,535**	**-**	**1,535**
Inclusion/Exclusion of companies	4	-	4
Additions	601	374	975
Amount taken to income	(106)	(370)	(476)
Translation differences	25	-	25
Other	(1)	-	(1)
Balance at 31/12/05	**2,058**	**4**	**2,062**

15. Long-term provisions

The detail of this heading in the consolidated balance sheet at 31 December 2005 and 2004, is as follows:

	Millions of Euros	
	31/12/05	**31/12/04**
Provisions for pensions and similar obligations	826	471
Provisions for labour force restructuring costs	2,209	2,233
Other provisions	2,062	1,690
TOTAL	**5,097**	**4,394**

a) Provisions for pensions and similar obligations

Most of the Group companies have pension payment obligations to their employees, which vary on the basis of the Group company involved. These obligations, which combine defined benefits and defined contributions, are basically formalised in pension plans or insurance policies. The changes in 2005 and 2004 in the heading “Provisions for Pensions and Similar Obligations” on the liability side of the consolidated balance sheet were as follows:

	Millions of Euros	
	2005	**2004**
Beginning balance	**471**	**483**
Period provisions with a charge to income for the year:		
Staff costs	42	42
Finance expenses	15	5
Period provisions against equity: retained earnings	323	-
Amounts used:		
Payments	(45)	(48)
Transfers and other	20	(11)
Ending balance	**826**	**471**

The Group's employees in Spain included under the Framework Agreement dated 25 October 2000, are participants in the Endesa Group Employee Pension Plan. Most of the employees participate in defined contribution plans for retirement and defined benefit plans for disability and death of serving employees, as coverage for which the appropriate insurance policies have been taken out.

However, there are two large groups of employees (of a closed number in that no new employees can be included) who are not included in the general system 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, the monitoring required for this system does not differ significantly from that required for the mixed plans described above.
2. Fecsa/Enher/HidroEmpordá employees: defined-benefit pension plan with expected annual salary increase rate tied to the increase in the CPI. This plan is treated exactly in the same way as a defined-benefit system.

Outside Spain, the pension obligations consist substantially in full of defined contribution arrangements, all of which have been externalised except in the countries whose legislation permits internal allowances in this connection, the amount of which is not material.

Based on the projected unit credit method, the assumptions used in calculating the actuarial liability in respect of uninsured defined benefit obligations in Spain at 31 December 2004 and 2005, were as follows:

	2005	**2004**
Discount rate	3.588%	4%
Annual CPI growth	2.30%	2.30%
Mortality tables	GRM/F 95	GRM/F 95

The provisions recognised under Staff Costs and Net Finance Costs relate to the provisions accrued in the year in relation to staff costs relating to current employees and the finance costs relating, in both cases, to unexternalised obligations. The balance of Equity – Retained Earnings (see Note 13) relates to the actuarial gains and losses and to the change in the liability derived from the change in the market value of the plan assets.

Under Royal Decree 1556/2005 approving the electricity tariff for 2006, from 1 January 2006 onwards, electricity supplied to employees of electric utilities will be paid for applying the general tariffs and access fees or tariffs. This legislative change represents an increase in the cost of the existing obligation to supply power to both present and former employees at a reduced price.

The increase in the estimated cost required to cover this obligation has led to an increase of EUR 249 million in the actuarial liability, and this amount was recognised under the heading "Equity – Retained Earnings" (see Note 13).

Set forth below is information on the actuarial liabilities and plan assets for the defined benefit obligations at 31 December 2005 and 2004:

	Millions of Euros	
	2005	2004
Actuarial liability	1,465	1,239
Plan assets	1,187	1,055
Provision recognised in the consolidated balance sheet	278	184

The movements in the market value of plan assets in 2005 and 2004 were as follows:

	Millions of Euros	
	2005	2004
Beginning market value	**1,055**	**997**
Estimated gain	72	68
Contributions made by the companies	35	40
Payments	(30)	(51)
Translation differences	55	1
Ending market value	**1,187**	**1,055**

The annual contributions to the pension plans are recorded directly with a charge to Staff Costs in the consolidated income statement. The contributions made in this connection in 2005 amounted to EUR 72 million.

b) Provisions for labour force restructuring costs

The obligations reflected in the consolidated balance sheet in respect of provisions for labour force restructuring costs arise as a result of collective or individual agreements with the Group's employees which provide for the Company's obligation to supplement the public social security system benefits in the event of termination of the employment relationship as a result of an agreement between the parties.

The changes in the Provisions for Labour Force Restructuring Costs on the liability side of the consolidated balance sheet in 2005 and 2004 were as follows:

	Millions of Euros	
	2005	2004
Beginning balance	**2,233**	**2,302**
Period provisions with a charge to income for the year:		
Staff costs	109	118
Finance costs	208	95
Amounts used:		
Payments	(319)	(280)
Transfers and other	(22)	(2)
Ending balance	**2,209**	**2,233**

These liabilities relate substantially in full to the collective redundancy procedures undertaken by the Group companies in Spain. At 31 December 2005, there were two types of procedure in progress:

1) Collective redundancy procedures approved by the former companies before the corporate restructuring in 1999.

   The employees were entitled, based on the collective redundancy procedure approved at each company, to take early retirement between the ages of 50 and 55, in the period from 1998 to 2005, and an extension to 2007 was approved.

The total number of employees considered in this connection is 4,908, substantially all of whom are no longer in the employ of the Group.

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 31 December 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 4,659, of whom 1,600 are currently in a situation of pre-retirement.

The economic conditions applicable to the employees who have availed themselves of these procedures 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 a termination benefit 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 pre-retirement received prior to the date of definitive retirement, will be deducted from the resulting amounts.

The assumptions used for the actuarial calculation of the obligations arising under these collective redundancy procedures are as follows:

	2005	2004
Discount rate	3.588%	4%
Annual CPI growth	2.30%	2.30%
Mortality tables	GRM/F 95	GRM/F 95

The change in the actuarial assumptions and in the bases used to calculate the benefits and the new procedures considered gave rise to increases of EUR 220 million and EUR 118 million in these provisions in 2005 and 2004, respectively. Of these amounts, EUR 111 million related to the decrease in the discount rate used and were classified as Finance Costs in the 2005 consolidated income statement. The remaining EUR 109 million were classified under the heading “Staff Costs” in the consolidated income statement. Also, financial accrual relating to these provisions in 2005 and 2004 amounted to EUR 97 million and EUR 95 million, respectively, and these amounts are classified as Net Finance Costs in the accompanying consolidated income statement.

c) Other provisions

The detail of the balance of Other Provisions on the liability side of the accompanying consolidated balance sheet and of the changes therein in 2005 is as follows:

	Millions of Euros		
	Provisions for Litigation, Termination Benefits, etc.	**Provisions for Facility Closure Costs**	**Total**
Balance at 31/12/04	**1,326**	**364**	**1,690**
Period provisions charged to income for the year:			
Staff costs	47	-	47
Finance costs	40	14	54
Other expenses	239	10	249
Period provisions charged to non-current assets	(2)	22	20
Amounts used:			
Payments	(75)	(4)	(79)
Translation differences	102	-	102
Transfers and other	(27)	6	(21)
Balance at 31/12/05	**1,650**	**412**	**2,062**

Litigation and arbitration

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

- In 2002 EDF International ("EdF") 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 USD 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 to pay Endesa Internacional USD 58 million and YPF, S.A. USD 14 million. This dispute arose from the sale to the French EdF Group of the investments of YPF, S.A. and Endesa Internacional, S.A. in the Argentine companies Easa and Edenor. The arbitration proceedings are still in progress, and the most recent arbitral actions (evidentiary hearing) were taken in October 2005.

- There are five court proceedings in progress for an amount of over EUR 2 million against Endesa Distribución Eléctrica which could give rise to the obligation to settle various claims (damages resulting from forest fires in Cataluña; administrative penalty for power cuts in Barcelona; and a claim regarding the fulfilment of an agreement for the construction of electricity facilities in the Canary Islands), amounting to an aggregate amount of EUR 61 million.

- The Spanish State Auditing Agency issued an adverse report on certain grants received by Encasur, which, should it be confirmed by the competent instances, would result in a proceeding being instituted for repayment of the grants amounting to approximately EUR 37 million.

- Until 31 December 1996, Endesa and its subsidiaries were taxed for corporation tax purposes as part of the consolidated tax group of Sociedad Estatal de Participaciones Industriales ("SEPI").

The Corporation 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, S.A. and Unelco recognising the right of these companies to take the tax credits for investments that they had generated from 1992 to 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 Endesa Group companies. On 14 June 2001, the Secretary of State for Finance handed down two separate decisions declaring the reports issued to Endesa and Unelco and recognising 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.

The financial and tax inspection authorities also issued assessments against Endesa disallowing its right to take the tax credits generated from 1992 through 1996. All these assessments, except for one on which no decision has yet been taken, have been adjudged to be null and void by the Central Economic-Administrative Tribunal.

Lastly, the National Appellate Court ruled the SEPI assessment of 1996 in which the tax credits were taken null and void. A cassation appeal can be filed against the National Appellate Court's decision with the Supreme Court.

The tax credits that could be affected by the outcome of the proceedings described above total a maximum amount of EUR 136 million.

- The authorities have challenged the applicability of certain tax incentives corresponding to the Endesa tax group, the maximum contingency for which amounts to EUR 31 million.

- The reform of the Local Finances Law, effective from 1 January 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.

  Certain contradictory decisions have been handed down by the various High Courts regarding the applicability of the aforementioned assessments and, therefore, the ultimate decision will be handed down by the Supreme Court. The lawsuits total EUR 9 million, although the maximum contingency in this respect amounts to EUR 42 million.

- 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. At the date of preparation of these consolidated financial statements, Sunat had issued assessments for the period from 1996 to 2001 totalling PEN 205 million. Endesa has an investment of 13.78% in Edegel.

- 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 15 December 2004, the Brazilian tax authorities ruled that Cien had to pay BRL 187 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.

- ENDESA's Brazilian subsidiary Ampla Energía e Servicios, S.A. ("Ampla") won a claim filed against the Brazilian government arguing that Ampla did not have to pay contributions for the financing of the social security system ("Cofins"). This tax is levied on revenue 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 USD 100 million.

- Also, in 2005 the Brazilian tax authorities notified Ampla of a tax assessment for USD 206 million that has been appealed against. The authorities consider that the special tax regime, under which interest received by subscribers of a Fixed Rate Notes issue made by Ampla in 1998 is exempt from tax in Brazil, is not applicable.

- Public Emergency and Regime Reform Law 25561, enacted by the Argentine authorities on 6 January 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 at the date of preparation of these consolidated financial statements. However, it should be noted that in 2005 the parties involved in this arbitration negotiated an agreement which, if ultimately approved by the Argentine parliament and the Argentine government, could, if certain conditions are met, lead to the suspension of these arbitration proceedings.

- Gas Natural SDG, S.A. has filed with the Barcelona Commercial Courts a statement of claim against Endesa and the members of its Board of Directors in which, among other matters, it requests that interim measures be taken to prohibit the distribution of dividends tied to the gain obtained on the sale of Auna. Although the legal advisers of Endesa consider this request to absolutely unfounded, in view of the limitations inherent to any injunctive relief proceedings, the possibility of a court judgment being handed down suspending or limiting the distribution of dividends by the shareholders at the Annual General Meeting of Endesa cannot be ruled out.

The directors of Endesa consider that the provisions recorded in the accompanying consolidated balance sheet cover adequately the risks relating to litigation, arbitration proceedings and other transactions described in this Note and, accordingly, they do not expect any liabilities additional to those disclosed to arise.

In view of the nature of the risks covered by these provisions, it is not possible to determine a reasonable schedule for the related payments, if any.

16. Bank borrowings and other financial liabilities

The detail of the non-current and current Bank Borrowings and Other Financial Liabilities at 31 December 2005 and 2004, is as follows:

	Millions of Euros			
	31/12/05		31/12/04	
	Current	Non-Current	Current	Non-Current
Preference shares (1)	-	1,419	-	-
Debt instruments and other held-for-trading liabilities	1,304	10,735	453	11,574
Bank borrowings	961	5,592	915	5,128
Other financial liabilities	185	841	173	1,013
Total bank borrowings and other financial liabilities	**2,450**	**18,587**	**1,541**	**17,715**

(1) Since IASs 32 and 39 were not applied, at 31 December 2004, the preference shares were classified under Equity – Of Minority Interests.

The detail, by currency and maturity, of the Group's financial liabilities is as follows:

	Millions of Euros							
	Balance at 31/12/05	Current Maturity	Non-Current Maturity					Total Non-Current
		2006	2007	2008	2009	2010	Subsequent Years	
Euro	13,484	1,192	716	320	1,947	5,227	4,082	12,292
US dollar	4,458	549	208	582	970	256	1,893	3,909
Chilean peso/ UF	715	209	3	3	5	131	364	506
Brazilian real	687	200	72	158	61	94	102	487
Other	1,693	300	83	124	165	64	957	1,393
TOTAL	**21,037**	**2,450**	**1,082**	**1,187**	**3,148**	**5,772**	**7,398**	**18,587**

The detail, by currency, of these liabilities, taking into account the effect of derivatives on this classification, is as follows:

	Millions of Euros
Euro	15,033
US dollar	3,044
Chilean peso	1,399
Brazilian real	640
Other	921
TOTAL	**21,037**

In 2005 the financial liabilities bore average interest at 5.46%.

Preference shares:

In March 2003 Endesa Capital Finance carried out an issue of preference shares totalling EUR 1,500 million with the following features:

- 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 non-cumulative and conditional on the obtainment of a consolidated profit or on the payment of dividends on the common shares of Endesa, S.A.

In 2004 these shares were classified under Equity – Of Minority Interests because IASs 32 and 39 were not applied.

Hedging debt

Of the Group's debt in US dollars, EUR 2,187 million relate to future cash flow hedges on the Group's income from operations in Latin America tied to the US dollar.

The changes in 2005 and 2004 in the heading Equity – Asset and Liability Revaluation Reserves as a result of exchange differences on this debt were as follows:

	Millions of Euros	
	2005	**2004**
Balance of asset and liability revaluation reserves at beginning of year	**57**	**-**
Exchange differences recognised in equity	57	59
Allocation of exchange differences to income	(5)	(2)
Other	1	-
Balance of asset and liability revaluation reserves at end of Year	**110**	**57**

Other matters

At 31 December 2005, the Group companies had undrawn credit facilities totalling EUR 4,587 million. This amount, together with the current assets, sufficiently covers the Group's short-term payment obligations.

The Group's financial liabilities contain the covenants that are habitual in contracts of this nature.

Endesa, S.A. does not have in its financing contracts any stipulations involving financial ratios that could lead to breach of contract and give rise to the early termination of the contracts.

As regards clauses relating to credit rating, Endesa S.A. has arranged financial transactions amounting to EUR 899 million that might require additional guarantees or renegotiation in the event of a drop in the credit rating.

Most of the contracts governing indebtedness to third parties of the companies consolidated with Endesa's renewable energies subsidiary, ECyR, and of certain Latin American subsidiaries include standard project finance clauses relating to the fulfilment of certain financial ratios. Also, they require that all the assets assigned to the projects be pledged to the creditors. The outstanding balance of the debt to third parties that includes clauses of this nature amounted to EUR 405 million at 31 December 2005.

As is customary, the contracts governing a large portion of the financial liabilities of Enersis and Endesa Chile contain cross default clauses in relation to some of their subsidiaries whereby if one of the subsidiaries were to default on its payment obligations or other commitments, under certain circumstances, for amounts that individually amount to USD 30 million, this situation could lead to the early maturity of a significant part of the debt of Enersis and Endesa Chile. The contracts governing the debt of Endesa, S.A. do not include any cross default clauses in relation to the debt of Enersis and Endesa Italia.

At 31 December 2005, neither Endesa, S.A. nor any of its major subsidiaries were in a situation of non-compliance with their financial or other obligations that might give rise to the early maturity of their financial liabilities.

The Group's directors consider that the existence of these clauses will not change the current/non-current classification in the accompanying consolidated balance sheet.

The fair value of the Group's gross financial liabilities, including the value of the hedging derivatives, at 31 December 2005, was EUR 21,859 million.

17. Risk management policy

The Endesa Group is exposed to certain risks which it manages by applying risk identification, measurement, concentration limitation and oversight systems.

The main principles defined by the Endesa Group when establishing its policy for the management of the principal risks are as follows:

- Comply with the principles of good corporate governance.
- Comply strictly with all Endesa's rules.
- Each business and corporate area defines:
    i. The markets and product lines in which it can operate on the basis of having sufficient know-how and capabilities to ensure effective risk management.
    ii. Criteria concerning counterparties.
    iii. The authorised operators.
- The businesses and corporate areas establish for each market in which they operate the level of risk that they are prepared to assume on a basis that is consistent with the strategy defined.
- The limits of the businesses and corporate areas are approved by their respective Risk Committees or, should they not have one, by the Endesa Risk Committee.
- All the businesses and corporate areas must conduct their business within the limits approved in each case.
- The businesses, corporate areas, lines of business and companies establish the risk management controls required to ensure that the transactions are performed in the markets in accordance with the policies, principles and procedures of Endesa.

Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities that bear a fixed interest rate and the future flows from assets and liabilities bearing interest at a floating rate.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility.

Based on the Endesa Group's estimates and debt structure targets, hedging transactions are carried out by arranging derivatives that mitigate these risks.

The detail of the interest rate risk structure at 31 December 2005, distinguishing between risk tied to fixed and protected interest rates and risk tied to floating interest rates and taking into account the derivatives arranged, is as follows:

	Net Position (Millions of Euros)
Fixed or protected interest rate	16,251
Floating interest rate	2,030
TOTAL	**18,281**

The reference interest rates for the borrowings arranged by the Endesa Group companies are mainly Euribor and US dollar Libor. In the case of the Latin American currencies, the borrowings are generally tied to the local indexes customarily used in the banking industry.

Foreign currency risk

The foreign currency risk relates mainly to the following transactions:

- Debt denominated in foreign currencies arranged by the Group companies and associates.

- Payments to be made in international markets in order to purchase fuel stocks.

- Income in Latin America tied to the performance of the US dollar.

In addition, the new assets relating to net investments in foreign operations whose functional currency is not the euro are exposed to foreign exchange risk in the translation of the financial statements of these foreign operations on consolidation.

In order to mitigate the foreign exchange risk, the Endesa Group arranged currency swaps and interest rate hedges. The Group also attempts to achieve a balance between the cash collections and payments relating to its assets and liabilities denominated in foreign currencies.

Commodity price risk

The Endesa Group is exposed to the risk of fluctuations in commodity prices, largely through:

- Purchases of fuel stocks in the electricity generation process.

- Power purchase and sale transactions made in domestic and international markets.

Exposure to this risk is managed at long term through the diversification of contracts, management of the procurements portfolio by tying it to indexes that perform in a similar or comparable way to end electricity prices (generation) or selling prices (retailing), and through contractual periodic renegotiation clauses, the aim of which is to maintain the economic equilibrium of procurements.

At short and medium term fluctuations in the prices of procurements are managed through specific hedging transactions, generally using derivatives.

Liquidity risk

The Group's liquidity policy consists of the arrangement of committed credit facilities and current financial assets for an amount sufficient to cater for the projected needs for a given period based on the status and expectations of the debt and capital markets.

Credit risk

The Group is not exposed to significant credit risk, since the average period for making collections from customers is very short and cash placements and made and derivatives are arranged with highly solvent entities.

18. Derivative financial instruments

Endesa, applying the risk management policy described above, uses mainly interest rate and foreign exchange hedging derivatives.

The most commonly used interest rate derivatives are interest rate swaps, forward rate agreements and interest rate options. The most frequently used foreign exchange derivatives are cross currency swaps and foreign exchange hedges.

The Company classifies its hedges into three categories:

- Cash flow hedges: which hedge the cash flows on debt.

- Fair value hedges: which hedge the fair value of the debt.

- Other hedges: hedges which, because they do not meet the requirements established by IFRSs, cannot be designated as cash flow or fair value hedges.

The detail, by maturity, of the notional and/or contractual amounts of the derivatives outstanding at the Group and of their fair value at 31 December 2005, is as follows:

	Millions of Euros					
		Notional Amount				
Derivatives	**Fair Value**	**2006**	**2007**	**2008**	**Subsequent Years**	**Total**
Interest rate hedges						
Cash flow hedges	(172)	728	383	315	5,762	7,188
Fair value hedges	243	958	67	174	767	1,966
Foreign exchange hedges						
Cash flow hedges	(269)	200	41	131	1,913	2,285
Fair value hedges	(15)	49	-	-	22	71
Commodity price hedges						
Cash flow hedges	(17)	1,511	22	-	-	1,533
Derivatives not designated as hedging instruments						
Interest rate	28	311	235	30	1,855	2,431
Foreign exchange	(40)	85	9	1	-	95
Fuel	-	-	3	-	-	3
Electricity	1	222	-	-	-	222

The notional and/or contractual amounts of the contracts entered into do not reflect the actual risk assumed by the Group, since these amounts only constitute the basis on which the derivative settlement calculations were made.

The balance of Equity – Asset and Liability Revaluation Reserve at 31 December 2005, relating to cash flow hedges was a negative amount of EUR 191 million before tax, with a negative change of EUR 70 million with respect the related balance at the beginning of the year.

This change includes a negative amount of EUR 49 million included under the heading Financial Loss in the accompanying consolidated income statement to offset the effect on the consolidated income statement of the underlying being hedged.

The amount of the cash flow hedges recognised in equity at 31 December 2005, will foreseeably be transferred to the consolidated income statement as follows:

	Millions of Euros
2006	25
2007	24
2008	24
Subsequent years	118
TOTAL	**191**

19. Tax matters

ENDESA, S.A. heads a Group that files consolidated corporation tax returns in Spain. The Consolidated Tax Group includes Endesa, S.A., as the Parent, and as subsidiaries, the Spanish companies that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups. At 31 December 2005, the Consolidated Tax Group comprised 58 companies, of which the most significant were Endesa, S.A., Endesa Generación, S.A., Gas y Electricidad Generación, S.A.U. ("Gesa Generación"), Unión Eléctrica de Canarias Generación ("Unelco Generación"), Endesa Red, S.A., Endesa Distribución Eléctrica, S.L., Endesa Operaciones y Servicios Comerciales, S.L., Endesa Energía, S.A., Endesa Europa, S.A., Endesa Internacional S.A., Endesa Participadas, S.A. and Endesa Financiación Filiales, S.A.

The Group's other subsidiaries file individual tax returns in accordance with the tax legislation in force in each country.

Set forth below are the reconciliation of the income tax resulting from the application of the standard tax rate in force in Spain to the Profit before Tax, the income tax expense recognised in the consolidated income statement and the reconciliation of this expense to the net income tax payable for 2005 and 2004:

	Millions of Euros	
	2005	**2004**
Consolidated profit before tax	4,547	2,013
Permanent differences	(713)	(338)
Adjusted profit	3,834	1,675
Tax rate	35%	35%
Profit adjusted by tax rate	1,342	586
Effect of applying different tax rates	(101)	(61)
Tax credits	(451)	(173)
Income tax expense in the consolidated income statement	790	352
Tax recognised directly in equity	(114)	30
Total income tax expense	676	382
Temporary differences	(158)	(237)
Net income tax payable	518	145

The deferred taxes arose in 2005 and 2004 as a result of the following:

Deferred Tax Assets	Millions of Euros	
	2005	**2004**
Depreciation and amortisation charge	250	88
Provisions for pensions and collective redundancy procedures	1,486	1,379
Other provisions	491	644
Tax loss and tax credit carryforwards	407	392
Asset revaluation in Italy	197	-
Other	629	856
TOTAL	**3,460**	**3,359**

Deferred Tax Liabilities	Millions of Euros	
	2005	**2004**
Accelerated depreciation of assets for tax purposes	1,313	1,116
Other	539	608
TOTAL	**1,852**	**1,724**

The detail at 31 December 2005, of the prior years' tax losses available for offset against future profits and the last years for offset are as follows:

Year	Millions of Euros
2006	1
2007	334
2008	6
Subsequent years	1,817

Of these tax losses, which relate mainly to Latin America, EUR 160 million are recognised under Deferred Tax Assets on the asset side of the consolidated balance sheet at 31 December 2005. No tax asset was recognised in respect of the remaining EUR 1,998 million since there is no certainty as to their recoverability.

The aggregate amount of temporary differences associated with retained earnings of subsidiaries for which deferred tax liabilities have not been recognised at 31 December 2005, was not material.

At 31 December 2005, tax assessments totalling approximately EUR 284 million had been issued against the Group.

In view of the varying interpretations that can be made of the applicable tax legislation, the outcome of the tax audits of the open years that could be conducted by the tax authorities in the future could give rise to tax liabilities which cannot be objectively quantified at the present time. However, the Group's directors consider that the liabilities that could arise in this connection would not have a material effect on the Group's future earnings.

20. Revenue

a) Sales

The detail of this heading in the consolidated income statements for 2005 and 2004 is as follows:

	Millions of Euros	
	2005	**2004**
Power sales	15,846	12,001
Services	1,662	1,508
TOTAL	**17,508**	**13,509**

b) Other operating income

The detail of the other operating income in 2005 and 2004 is as follows:

	Millions of Euros	
	2005	**2004**
CO_2 emission allowances (Note 14)	370	-
Grants related to income	23	24
Grants related to assets transferred to income for the year	106	46
Other current operating income	222	86
TOTAL	**721**	**156**

21. Financial loss

The detail of the heading "Financial Loss" in the accompanying consolidated income statement is as follows:

	Millions of Euros	
	2005	**2004**
Finance income	224	213
Finance costs:	(1,481)	(1,300)
Debt	(1,204)	(1,147)
Provisions	(277)	(153)
Exchange differences:	5	(60)
Gains	243	127
Losses	(238)	(187)
Financial loss	**(1,252)**	**(1,147)**

The financial loss for 2004 does not include a cost of EUR 60 million relating to the preference shares because they were recognised in 2004 under Equity – Of Minority Interests in the consolidated balance sheet since IASs 32 and 39 were not applied in that year (see Notes 13.2 and 16).

22. Income from sale of assets

The detail of the heading "Income from Sale of Assets" in the accompanying consolidated income statements is as follows:

	Millions of Euros	
	2005	**2004**
Equity investments:		
Auna	1,273	-
Sechilienne-Sidec	48	-
Endesa Italia S.p.A	24	-
Nueva Nuinsa S.L	16	-
Lydec Lyonnaise Des Eaux Casablanca	12	-
Cepm	7	-
Smartcom Pcs	(3)	-
Agbar	-	102
Senda Ambiental, S.A.	-	14
Netco Redes, S.A.	-	8
Enditel	-	(4)
Real estate and other assets	109	75
TOTAL	**1,486**	**195**

23. Segment reporting

Basis of segmentation

In carrying on its business activities, the Group's organisation is articulated on the basis of giving priority to its core business, consisting of the generation, transmission, distribution and retailing of electricity, gas and the provision of related services, and establishes three major lines of business, each based on a geographical area:

- Spain and Portugal, which are managed as an integrated market.
- Rest of Europe.
- Latin America.

Although within each geographical segment the Group considers there to be a single vertically integrated activity, for the purpose of endowing the segments in Spain and Portugal and Latin America with greater transparency, Generation and Distribution are treated as secondary segments, and the retailing activity associated therewith are included in each of them. In the case of the Rest of Europe, the Group only has a presence in the Generation activity.

Since the corporate organisation of the Group basically coincides with that of the businesses and, therefore, of the segments, the basis of allocation established in the segment reporting presented below is based on the financial information of the companies making up each segment.

Also, in 2005 the Group had a fourth line of business called "Other Businesses" which included almost exclusively the equity investments in companies in the telecommunications industry, which were sold in 2005.

In the segment information presented below, the balances relating to "Other Businesses" were allocated among the three geographical segments, as appropriate. When the geographical segments were broken down into the secondary segments they were included in "Adjustments and Other".

	Millions of Euros							
	2005				2004			
	Spain and Portugal	Rest of Europe	Latin America	Total	Spain and Portugal	Rest of Europe	Latin America	Total
REVENUE	**9,277**	**3,720**	**5,232**	**18,229**	**6,732**	**2,576**	**4,357**	**13,665**
Sales	8,761	3,598	5,149	17,508	6,655	2,557	4,297	13,509
Other operating income	516	122	83	721	77	19	60	156
PROCUREMENTS AND SERVICES	**(4,072)**	**(2,497)**	**(2,534)**	**(9,103)**	**(2,369)**	**(1,746)**	**(2,177)**	**(6,292)**
Power purchased	(875)	(1,087)	(1,405)	(3,367)	(434)	(862)	(1,060)	(2,356)
Cost of fuel consumed	(2,057)	(1,189)	(332)	(3,578)	(1,547)	(817)	(360)	(2,724)
Transmission expenses	(273)	(10)	(368)	(651)	(189)	(31)	(300)	(520)
Other variable procurements and services	(867)	(211)	(429)	(1,507)	(199)	(36)	(457)	(692)
CONTRIBUTION MARGIN	**5,205**	**1,223**	**2,698**	**9,126**	**4,363**	**830**	**2,180**	**7,373**
Work on non-current assets	139	9	22	170	133	10	18	161
Staff costs	(1,049)	(161)	(337)	(1,547)	(993)	(115)	(285)	(1,393)
Other fixed operating expenses	(1,040)	(184)	(505)	(1,729)	(1,039)	(190)	(391)	(1,620)
GROSS PROFIT/LOSS FROM OPERATIONS	**3,255**	**887**	**1,878**	**6,020**	**2,464**	**535**	**1,522**	**4,521**
Depreciation and amortisation charge	(1,005)	(269)	(502)	(1,776)	(1,042)	(165)	(468)	(1,675)
PROFIT/LOSS FROM OPERATIONS	**2,250**	**618**	**1,376**	**4,244**	**1,422**	**370**	**1,054**	**2,846**
FINANCIAL PROFIT/LOSS	**(664)**	**(64)**	**(524)**	**(1,252)**	**(545)**	**(62)**	**(540)**	**(1,147)**
Net finance costs	(654)	(63)	(540)	(1,257)	(571)	(63)	(453)	(1,087)
Exchange differences	(10)	(1)	16	5	26	1	(87)	(60)
Result of companies accounted for by the equity method	54	9	4	67	57	10	12	79
Income from other investments	(4)	-	6	2	40	-	-	40
Income from sale of assets	1,391	84	11	1,486	193	-	2	195
PROFIT/LOSS BEFORE TAX	**3,027**	**647**	**873**	**4,547**	**1,167**	**318**	**528**	**2,013**
Income tax	(572)	(104)	(114)	(790)	(137)	(114)	(101)	(352)
PROFIT/LOSS FOR THE YEAR	**2,455**	**543**	**759**	**3,757**	**1,030**	**204**	**427**	**1,661**
PARENT	**2,446**	**425**	**311**	**3,182**	**961**	**169**	**123**	**1,253**
Minority interests	9	118	448	575	69	35	304	408

	Millions of Euros							
	2005				2004			
	Spain and Portugal	Rest of Europe	Latin America	Total	Spain and Portugal	Rest of Europe	Latin America	Total
ASSETS								
Non-current assets	**25,295**	**5,692**	**14,755**	**45,742**	**21,942**	**5,365**	**12,386**	**39,693**
Property, plant and equipment	18,176	3,572	10,565	32,313	16,663	3,532	8,715	28,910
Investment property	4	-	67	71	-	-	58	58
Intangible assets	720	74	69	863	251	14	58	323
Goodwill	148	1,471	2,659	4,278	-	1,507	2,049	3,556
Non-current financial assets	3,409	151	574	4,134	756	41	499	1,296
Investments accounted for using the equity method	378	78	167	623	1,494	112	585	2,191
Deferred tax assets	2,460	346	654	3,460	2,778	159	422	3,359
Current assets	**6,075**	**1,145**	**2,381**	**9,601**	**4,356**	**833**	**2,300**	**7,489**
Inventories	548	150	114	812	502	189	65	756
Trade and other receivables	3,124	805	1,305	5,234	2,403	487	1,026	3,916
Current financial assets	22	-	55	77	(78)	13	129	64
Current tax assets	471	63	330	864	114	83	269	466
Cash and cash equivalents	1,910	127	577	2,614	1,306	61	811	2,178
Other assets	-	-	-	-	109	-	-	109
Non-current assets cl. as held for sale	**22**	-	-	**22**	-	-	-	-
TOTAL ASSETS	**31,392**	**6,837**	**17,136**	**55,365**	**26,298**	**6,198**	**14,686**	**47,182**
EQUITY AND LIABILITIES								
Equity	**6,566**	**2,834**	**6,927**	**16,327**	**7,022**	**2,306**	**4,805**	**14,133**
Of the Parent	6,447	1,979	3,164	11,590	5,406	1,667	1,655	8,728
Of minority interests	119	855	3,763	4,737	1,616	639	3,150	5,405
Non-current liabilities	**18,337**	**2,704**	**7,589**	**28,630**	**15,201**	**2,947**	**8,252**	**26,400**
Deferred income	1,799	148	115	2,062	1,446	9	80	1,535
Long-term provisions	3,865	342	890	5,097	3,469	254	671	4,394
Bank borrowings and other financial liabilities	11,719	1,390	5,478	18,587	9,256	1,881	6,578	17,715
Other non-current payables	407	503	122	1,032	397	535	100	1,032
Deferred tax liabilities	547	321	984	1,852	633	268	823	1,724
Current liabilities	**6,489**	**1,299**	**2,620**	**10,408**	**4,075**	**945**	**1,629**	**6,649**
Bank borrowings and other financial liabilities	1,219	23	1,208	2,450	592	297	652	1,541
Non-current trade and other payables	5,024	1,002	948	6,974	3,248	576	756	4,580
Current tax liabilities	246	274	464	984	235	72	221	528
TOTAL EQUITY AND LIABILITIES	**31,392**	**6,837**	**17,136**	**55,365**	**26,298**	**6,198**	**14,686**	**47,182**

	Electricity Business in Spain and Portugal									
	2005					2004				
	Generation	**Distribution**	**Corporate Activities**	**Adjustments and Other**	**Total**	**Generation**	**Distribution**	**Corporate Activities**	**Adjustments and Other**	**Total**
REVENUE	**8,140**	**1,944**	**8**	**(815)**	**9,277**	**5,506**	**1,862**	**84**	**(720)**	**6,732**
Sales	7,740	1,824	8	(811)	8,761	5,461	1,762	75	(643)	6,655
Other operating income	400	120	-	(4)	516	45	100	9	(77)	77
PROCUREMENTS AND SERVICES	**(4,761)**	**(138)**	**-**	**827**	**(4,072)**	**(2,937)**	**(88)**	**(9)**	**665**	**(2,369)**
Power purchased	(1,017)	(2)	-	144	(875)	(495)	-	(9)	70	(434)
Cost of fuel consumed	(2,057)	-	-	-	(2,057)	(1,554)	(1)	-	8	(1,547)
Transmission expenses	(828)	(1)	-	556	(273)	(608)	(1)	-	420	(189)
Other variable procurements and services	(859)	(135)	-	127	(867)	(280)	(86)	-	167	(199)
CONTRIBUTION MARGIN	**3,379**	**1,806**	**8**	**12**	**5,205**	**2,569**	**1,774**	**75**	**(55)**	**4,363**
Work on non-current assets	7	116	-	16	139	13	108	1	11	133
Staff costs	(391)	(518)	(132)	(8)	(1,049)	(393)	(441)	(134)	(25)	(993)
Other fixed operating expenses	(678)	(515)	173	(20)	(1,040)	(664)	(540)	128	37	(1,039)
GROSS PROFIT/LOSS FROM OPERATIONS	**2,317**	**889**	**49**	**-**	**3,255**	**1,525**	**901**	**70**	**(32)**	**2,464**
Depreciation and amortisation charge	(571)	(410)	(23)	(1)	(1,005)	(628)	(390)	(24)	-	(1,042)
PROFIT/LOSS FROM OPERATIONS	**1,746**	**479**	**26**	**(1)**	**2,250**	**897**	**511**	**46**	**(32)**	**1,422**
FINANCIAL PROFIT/LOSS	**(241)**	**(250)**	**(196)**	**23**	**(664)**	**(186)**	**(181)**	**743**	**(921)**	**(545)**
Net finance costs	(241)	(250)	(189)	26	(654)	(186)	(182)	734	(937)	(571)
Exchange differences	-	-	(7)	(3)	(10)	-	1	9	16	26
Result of companies accounted for by the equity method	41	3	-	10	54	45	1	-	11	57
Income from other investments	1	2	4,075	(4,082)	(4)	23	-	407	(390)	40
Income from sale of assets	-	106	9	1,276	1,391	-	48	23	122	193
PROFIT/LOSS BEFORE TAX	**1,547**	**340**	**3,914**	**(2,774)**	**3,027**	**779**	**379**	**1,219**	**(1,210)**	**1,167**
Income tax	(401)	(138)	(250)	217	(572)	(166)	(85)	(103)	217	(137)
PROFIT/LOSS FOR THE YEAR	**1,146**	**202**	**3,664**	**(2,557)**	**2,455**	**613**	**294**	**1,116**	**(993)**	**1,030**
PARENT	**1,144**	**199**	**3,664**	**(2,561)**	**2,446**	**612**	**291**	**1,116**	**(1,058)**	**961**
Minority interests	2	3	-	4	9	1	3	-	65	69

	Electricity Business in Spain and Portugal									
	2005					2004				
	Generation	Distribution	Corporate Activities	Adjustments and Other	Total	Generation	Distribution	Corporate Activities	Adjustments and Other	Total
ASSETS										
Non-current assets	**11,858**	**10,220**	**48,305**	**(45,088)**	**25,295**	**10,320**	**9,282**	**40,605**	**(38,265)**	**21,942**
Property, plant and equipment	9,153	8,592	77	354	18,176	8,650	7,558	78	377	16,663
Investment property	-	4	-	-	4	-	-	-	-	-
Intangible assets	539	142	38	1	720	65	150	35	1	251
Goodwill	148	-	-	-	148	-	-	-	-	-
Non-current financial assets	841	379	47,696	(45,507)	3,409	358	368	39,430	(39,400)	756
Investments accounted for using the equity method	273	11	-	94	378	258	32	9	1,195	1,494
Deferred tax assets	904	1,092	494	(30)	2,460	989	1,174	1,053	(438)	2,778
Current assets	**4,237**	**1,981**	**6,848**	**(6,991)**	**6,075**	**2,016**	**1,247**	**2,494**	**(1,401)**	**4,356**
Inventories	534	19	-	(5)	548	482	16	-	4	502
Trade and other receivables	2,978	1,692	142	(1,688)	3,124	1,371	1,175	165	(308)	2,403
Current financial assets	**8**	**2**	**4,215**	**(4,203)**	**22**	**15**	**4**	**614**	**(711)**	**(78)**
Current tax assets	596	243	1,014	(1,382)	471	113	47	432	(478)	114
Cash and cash equivalents	121	25	1,462	302	1,910	35	5	1,266	-	1,306
Other assets	-	-	15	(15)	-	-	-	17	92	109
Non-current assets cl. held f.sale	**-**	**22**	**-**	**-**	**22**	**-**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**16,095**	**12,223**	**55,153**	**(52,079)**	**31,392**	**12,336**	**10,529**	**43,099**	**(39,666)**	**26,298**
EQUITY AND LIABILITIES										
Equity	**4,448**	**1,733**	**21,432**	**(21,047)**	**6,566**	**4,749**	**2,035**	**18,944**	**(18,706)**	**7,022**
Of the Parent	4,430	1,723	21,432	(21,138)	6,447	4,733	2,025	18,944	(20,296)	5,406
Of minority interests	18	10	-	91	119	16	10	-	1,590	1,616
Non-current liabilities	**6,051**	**8,359**	**24,355**	**(20,428)**	**18,337**	**5,668**	**6,600**	**20,959**	**(18,026)**	**15,201**
Deferred income	86	1,720	-	(7)	1,799	88	1,358	-	-	1,446
Long-term provisions	1,608	1,874	377	6	3,865	1,395	1,583	513	(22)	3,469
Bank borrowings and other financial liabilities	4,008	4,374	23,853	(20,516)	11,719	3,863	3,279	20,317	(18,203)	9,256
Other non-current payables	108	293	-	6	407	115	277	-	5	397
Deferred tax liabilities	241	98	125	83	547	207	103	129	194	633
Current liabilities	**5,596**	**2,131**	**9,366**	**(10,604)**	**6,489**	**1,919**	**1,894**	**3,196**	**(2,934)**	**4,075**
Bank borrowings and other financial liabilities	554	205	6,832	(6,372)	1,219	37	183	2,390	(2,018)	592
Non-current trade and other payables	4,424	1,838	1,736	(2,974)	5,024	1,628	1,595	520	(495)	3,248
Current tax liabilities	618	88	798	(1,258)	246	254	116	286	(421)	235
TOTAL EQUITY AND LIABILITIES	**16,095**	**12,223**	**55,153**	**(52,079)**	**31,392**	**12,336**	**10,529**	**43,099**	**(39,666)**	**26,298**

	Electricity Business in Latin America									
	2005					2004				
	Generation	Distribution	Corporate Activities	Adjustments and Other	Total	Generation	Distribution	Corporate Activities	Adjustments and Other	Total
REVENUE	**2,297**	**3,476**	**17**	**(558)**	**5,232**	**1,936**	**2,912**	**6**	**(497)**	**4,357**
Sales	2,284	3,419	10	(564)	5,149	1,947	2,862	5	(517)	4,297
Other operating income	13	57	7	6	83	(11)	50	1	20	60
PROCUREMENTS AND SERVICES	**(1,063)**	**(2,048)**	**-**	**577**	**(2,534)**	**(816)**	**(1,839)**	**-**	**478**	**(2,177)**
Power purchased	(328)	(1,684)	-	607	(1,405)	(231)	(1,381)	-	552	(1,060)
Cost of fuel consumed	(332)	-	-	-	(332)	(308)	(18)	-	(34)	(360)
Transmission expenses	(281)	(115)	-	28	(368)	(226)	(71)	-	(3)	(300)
Other variable procurements and services	(122)	(249)	-	(58)	(429)	(51)	(369)	-	(37)	(457)
CONTRIBUTION MARGIN	**1,234**	**1,428**	**17**	**19**	**2,698**	**1,120**	**1,073**	**6**	**(19)**	**2,180**
Work on non-current assets	-	22	-	-	22	-	18	-	-	18
Staff costs	(75)	(187)	(24)	(51)	(337)	(57)	(164)	(20)	(44)	(285)
Other fixed operating expenses	(107)	(365)	(78)	45	(505)	(125)	(279)	(64)	77	(391)
GROSS PROFIT/LOSS FROM OPERATIONS	**1,052**	**898**	**(85)**	**13**	**1,878**	**938**	**648**	**(78)**	**14**	**1,522**
Depreciation and amortisation charge	(270)	(221)	(2)	(9)	(502)	(216)	(248)	(1)	(3)	(468)
PROFIT/LOSS FROM OPERATIONS	**782**	**677**	**(87)**	**4**	**1,376**	**722**	**400**	**(79)**	**11**	**1,054**
FINANCIAL PROFIT/LOSS	**(300)**	**(153)**	**(70)**	**(1)**	**(524)**	**(270)**	**(148)**	**(150)**	**28**	**(540)**
Net finance costs	(305)	(146)	(82)	(7)	(540)	(258)	(106)	(80)	(9)	(453)
Exchange differences	5	(7)	12	6	16	(12)	(42)	(70)	37	(87)
Result of companies accounted for by the equity method	26	-	(6)	(16)	4	14	-	3	(5)	12
Income from other investments	(7)	-	58	(45)	6	-	-	-	-	-
Income from disposal of assets	5	(1)	17	(10)	11	8	-	-	(6)	2
PROFIT/LOSS BEFORE TAX	**506**	**523**	**(88)**	**(68)**	**873**	**474**	**252**	**(226)**	**28**	**528**
Income tax	(52)	(140)	(42)	120	(114)	(89)	(69)	61	(4)	(101)
PROFIT/LOSS FOR THE YEAR	**454**	**383**	**(130)**	**52**	**759**	**385**	**183**	**(165)**	**24**	**427**
PARENT	**297**	**306**	**(130)**	**(162)**	**311**	**226**	**167**	**(165)**	**(105)**	**123**
Minority interests	157	77	-	214	448	159	16	-	129	304

	Electricity Business in Latin America									
	2005					2004				
	Generation	Distribution	Corporate Activities	Adjustments and Other	Total	Generation	Distribution	Corporate Activities	Adjustments and Other	Total
ASSETS										
Non-current assets	**5,199**	**5,189**	**8,739**	**(4,372)**	**14,755**	**6,405**	**4,055**	**5,980**	**(4,054)**	**12,386**
Property, plant and equipment	6,800	3,720	22	23	10,565	5,744	2,926	18	27	8,715
Investment property	-	-	-	67	67	-	-	-	58	58
Intangible assets	26	42	1	-	69	22	35	1	-	58
Goodwill	140	382	1,476	661	2,659	113	305	1,211	420	2,049
Non-current financial assets	388	724	3,426	(3,964)	574	210	623	1,174	(1,508)	499
Investments accounted for using the equity method	(2,434)	-	3,720	(1,119)	167	140	-	3,447	(3,002)	585
Deferred tax assets	279	321	94	(40)	654	176	166	129	(49)	422
Current assets	**1,163**	**1,237**	**259**	**(278)**	**2,381**	**1,031**	**1,283**	**362**	**(376)**	**2,300**
Inventories	47	28	-	39	114	30	19	-	16	65
Trade and other receivables	534	838	123	(190)	1,305	402	664	18	(58)	1,026
Current financial assets	67	68	42	(122)	55	161	93	219	(344)	129
Current tax assets	177	96	57	-	330	29	135	113	(8)	269
Cash and cash equivalents	338	207	37	(5)	577	409	372	12	18	811
Other assets	-	-	-	-	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	**6,362**	**6,426**	**8,998**	**(4,650)**	**17,136**	**7,436**	**5,338**	**6,342**	**(4,430)**	**14,686**
EQUITY AND LIABILITIES										
Equity	**883**	**2,448**	**6,768**	**(3,172)**	**6,927**	**2,735**	**2,190**	**2,951**	**(3,071)**	**4,805**
Of the Parent	(434)	2,316	6,768	(5,486)	3,164	1,467	2,051	2,951	(4,814)	1,655
Of minority interests	1,317	132	-	2,314	3,763	1,268	139	-	1,743	3,150
Non-current liabilities	**4,066**	**2,757**	**1,795**	**(1,029)**	**7,589**	**3,805**	**2,317**	**3,169**	**(1,039)**	**8,252**
Deferred income	4	116	5	(10)	115	3	79	7	(9)	80
Long-term provisions	220	493	148	29	890	172	361	153	(15)	671
Bank borr. and other financial liab.	3,172	1,816	1,620	(1,130)	5,478	3,084	1,617	2,992	(1,115)	6,578
Other non-current payables	44	104	-	(26)	122	34	71	-	(5)	100
Deferred tax liabilities	626	228	22	108	984	512	189	17	105	823
Current liabilities	**1,413**	**1,221**	**435**	**(449)**	**2,620**	**896**	**831**	**222**	**(320)**	**1,629**
Bank borrowings and other financial liabilities	725	340	320	(177)	1,208	569	397	136	(450)	652
Non-current trade and other payables	441	674	114	(281)	948	213	332	82	129	756
Current tax liabilities	247	207	1	9	464	114	102	4	1	221
TOTAL EQUITY AND LIABILITIES	**6,362**	**6,426**	**8,998**	**(4,650)**	**17,136**	**7,436**	**5,338**	**6,342**	**(4,430)**	**14,686**

24. Balances and transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties, form part of the Company's normal business activities and have been eliminated on consolidation. Therefore, they are not disclosed in this Note.

Significant shareholders

The noteworthy transactions carried out in 2005 with significant shareholders, all of which were performed on an arm's length basis, were as follows:

Significant Shareholder	Group Company	Nature of the Relationship	Type of Transaction	Amount (Millions of Euros)
Caja Madrid	Endesa, S.A.	Contractual	Long-term credit line	10.0
Caja Madrid	Endesa, S.A.	Contractual	Multicompany guarantee line	53.2
Caja Madrid	Endesa, S.A.	Contractual	Collective redundancy procedure multicompany guarantee line	64.3
Caja Madrid	Endesa, S.A.	Contractual	Pension plan custodian	978.1
Caja Madrid	Endesa, S.A.	Contractual	Interest rate derivatives	1,663.9
Caja Madrid	Endesa, S.A.	Contractual	Forward US dollar purchase	4.3
Caja Madrid	Endesa, S.A.	Contractual	Forward US dollar sale	2.1
Caja Madrid	Energías de la Mancha, S.A.	Contractual	Project financing	12.5
Caja Madrid	Energías de la Mancha, S.A.	Contractual	Interest rate derivative	9.6
Caja Madrid	Gas Aragón	Contractual	Credit account	7.5
Caja Madrid	Gesa Gas	Contractual	Credit account	0.2
Caja Madrid	Planta Regasificadora Sagunto	Contractual	Project financing	23.0
Caja Madrid	Planta Regasificadora Noroeste	Contractual	Project financing	40.0
Caja Madrid	Endesa Italia	Contractual	Interest rate derivative	100.0
Caja Madrid	Endesa Italia	Contractual	Bank debt guarantee	17.2
Caja Madrid	Internacional Endesa B.V.	Contractual	Foreign currency derivative	93.0
Caja Madrid	Internacional Endesa B.V.	Contractual	Interest rate derivative	340.0
Caja Madrid	Internacional Endesa B.V. (3)	Contractual	EMTN Programme placing agent	340.0
Caja Madrid	Internacional Endesa B.V.	Contractual	Preference share placing agent	1,043.0
Caja Madrid	Enersis	Contractual	Syndicated loan	9.5
Caja Madrid	Endesa Chile	Contractual	Syndicated loan	7.2
Mapfre (1)(2)	Endesa, S.A.	Contractual	60% share in insurance policy for damage	N/A
Mapfre (1)(2)	Endesa, S.A.	Contractual	53% share in third-party liability insurance policy	N/A
Mapfre (1)(2)	Endesa, S.A.	Contractual	Primary insurance policy for damage	N/A
Mapfre (1)(2)	Endesa Distribución Eléctrica	Contractual	Insurer financing	84.5
Mapfre (1)(2)	Endesa Generación	Contractual	Insurer financing	1.2
Mapfre (1)(2)	Endesa Group	Contractual	Life insurance	N/A
Mapfre (1)(2)	Endesa Distribución Eléctrica	Contractual	Life insurance	N/A
Axa (2)	Endesa, S.A.	Contractual	22% share in third-party liability insurance policy	N/A
Axa (2)	Endesa, S.A.	Contractual	Life insurance	N/A

(1) Mapfre's life insurance activities form part of Mapfre-Caja Madrid Holding de Entidades Aseguradoras, S.A., in which Caja Madrid has an ownership interest of 49%.

(2) The inclusion of the transactions with this company does not imply, under any circumstances, that it may be considered to be a related party for the purposes of Ministry of Economy and Finance Order EHA/3050/2004, of 15 September.

(3) Caja Madrid acts as the placing bank.

Associates and joint ventures

The transactions with associates and joint ventures relate mainly to loans granted, the balance of which at 31 December 2005, amounted to EUR 269 million (see Note 10), and to guarantees provided amounting to EUR 187 million at the same date.

The main loan transactions relate to Atacama Finance (EUR 147 million), Megasa (EUR 25 million), Emesa (EUR 24 million), Gas Alicante (EUR 10 million) and NQF Gas (EUR 8 million).

The guarantees provided relate to Elcogas (EUR 114 million), Planta Regasificadora de Sagunto (EUR 38 million) and Tirme (EUR 35 million).

Directors and senior executives

In 2005 the members of the Board of Directors and senior executives of Endesa, S.A., and the shareholders represented on the Board of Directors or individuals or companies who they represent, did not participate in unusual and/or significant transactions of the Company.

A) Remuneration and other benefits

The Company has adopted the reporting model in Appendix I of the Corporate Governance Annual Report for publicly listed companies implemented by the Spanish National Securities Market Commission (CNMV), approved in CNMV Circular 1/2004, of 17 March.

1. Remuneration of directors in 2005 and 2004

a) Remuneration and other benefits at the Company:

Type of Remuneration	Thousands of Euros	
	2005	2004
Fixed remuneration (1)	2,937	2,170
Variable remuneration	1,733	1,349
Attendance fees	1,112	930
Bylaw-stipulated directors' emoluments	-	-
Share options and other financial instruments	-	-
Other	32	47
TOTAL	**5,814**	**4,496**

Other Benefits	Thousands of Euros	
	2005	2004
Advances	343	343
Loans	93	153
Pension funds and plans: contributions (2)	2,359	4,555
Pension funds and plans: obligations assumed	-	-
Life insurance premiums	326	225
Guarantees provided by the Company to directors (2)	10,369	5,865

(1) At all the Endesa Group companies, the fixed remuneration 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 in respect of pensions and remuneration for employees reaching certain ages and years of service.
For the employees referred to in the preceding paragraph, the contributions in 2005, with respect to this section, for future services to pension funds and plans amount to EUR 1,389 thousand; the guarantee of future rights in respect of the item of remuneration Guarantees Provided by the Company to Directors amounts to EUR 10,369 thousand. The latter figure will decrease each year the director stays at the Company in question.

b) Remuneration and other benefits for membership of the Board of Directors of the Company or of Group companies and/or for being senior executives of Group companies:

Type of Remuneration	Thousands of Euros	
	2005	**2004**
Fixed remuneration	-	-
Variable remuneration	-	-
Attendance fees	340	311
Bylaw-stipulated directors' emoluments	-	-
Share options and other financial instruments	-	-
Other	-	-
TOTAL	**340**	**311**

Other Benefits	Thousands of Euros	
	2005	**2004**
Advances	-	-
Loans	-	-
Pension funds and plans: contributions	-	-
Pension funds and plans: obligations assumed	-	-
Life insurance premiums	-	-
Guarantees provided by the Company to directors	-	-

c) Total remuneration by type of director:

Type of Director	Thousands of Euros			
	2005		**2004**	
	By Company	**By Group**	**By Company**	**By Group**
Executive directors	4,184	90	2,984	71
Nonexecutive nominee directors	142	-	112	-
Nonexecutive independent directors	1,388	240	1,400	240
Other nonexecutive directors	100	10	-	-
TOTAL	**5,814**	**340**	**4,496**	**311**

d) Total remuneration and percentage with respect to the profit attributed to the Parent:

Type of Remuneration	Thousands of Euros	
	2005	**2004**
Total remuneration of directors	6,154	4,807
Total remuneration of directors / Profit attributed to the Parent (expressed as a percentage)	(*) 0.19	(**) 0.35

(*)Based on the percentage referred to in Article 40 of the Corporate Bylaws, i.e. the sum of the fixed remuneration amounts and share in profits with respect to the consolidated Group's profit approved by the shareholders and the Annual General Meeting, this percentage would be 0.02%.

(**) Calculated on the basis of the consolidated Group's profit for 2004 in accordance with Spanish GAAP.

2. Identification of the senior executives who are not executive directors, and total remuneration earned by them in the year:

Senior Executives	
Name	**Position**
Francisco Borja Acha Besga	Corporate Legal Counselling Manager
José Damián Bogas Gálvez (1)	General Manager for Spain and Portugal
Gabriel Castro Villalba	Corporate Communications Manager
Mª Isabel Fernández Lozano	Corporate Manager Assistant to the Corporate Services Manager
Ángel Ferrera Martínez	Chairman of the Advisory Board of Unelco-Endesa Canary Islands
Amado Franco Lahoz	Chairman of the Advisory Board of Erz-Endesa Aragón
José Antonio Gutiérrez Pérez (1)	General Manager of Erz-Endesa Aragón
José Félix Ibáñez Guerra (1)	General Manager – Mining
Pedro Larrea Paguaga	General Manager – Energy Management
Héctor López Vilaseco	General Manager – Energy Management in Latin America
José Luis Marín López Otero (1)	General Manager - Distribution
Alberto Martín Rivals	General Manager – Business in Latin America
José A. Martínez Fernández (1)	General Manager of Sevillana-Endesa Andalucia and Extremadura
Germán Medina Carrillo (1)	Corporate Human Resources Manager
Salvador Montejo Velilla	General Secretary and Secretary of the Board of Directors
Manuel Morán Casero	General Manager – Generation
Jesús Olmos Clavijo	General Manager for Europe
José Luis Palomo Álvarez (1)	Corporate Financial and Control Manager
Antonio Pareja Molina (1)	Corporate Services Manager
José María Plans Gómez (1)	General Manager of Unelco-Endesa Canary Islands
José Luis Puche Castillejo	Corporate Audit Manager
Álvaro Quiralte Abelló	General Manager of Endesa Italia
Jaime Reguart Pelegrí (1)	General Manager of Gesa-Endesa Balearic Islands
Bartolomé Reus Beltrán	Chairman of the Advisory Board of Gesa- Endesa Balearic Islands
Luis Rivera Novo (1)	General Manager for Latin America
Jorge Rosemblut Ratinoff	Chairman of Chilectra
José María Rovira Vilanova (1)	General Manager of Fecsa- Endesa Cataluña
Carlos Torres Vila	Corporate Strategy Manager
Javier Uriarte Monereo	General Manager – Retailing
Mario Valcarce Durán	General Manager of Enersis
Jaime Ybarra Llosent	Chairman of the Advisory Board of Sevillana Endesa Andalucia and Extremadura
Pablo Yrarrazabal Valdés	Chairman of Enersis
Rafael López Rueda	General Manager of Chilectra
Rafael Mateo Alcalá	General Manager of Endesa Chile
Antón Costas Comesaña (2)	Chairman of the Advisory Board of Fecsa-Endesa Cataluña
Juan Rosell Lastortras (2)	Chairman of the Advisory Board of Fecsa-Endesa Cataluña

(1) Subject to the system described in point 1 a) (2) (Other Benefits), with the terms and conditions specific to them.
(2) Juan Rosell Lastortras ceased to be a senior executive of the Company on 27 May 2005, and was replaced by Antón Costas Comesaña.

Type of Remuneration	Thousands of Euros	
	2005	2004
Total remuneration of senior executives	16,793	17,271

3. Guarantee clauses for cases of termination or changes of control for the senior executives, including the executive directors of the Company or of its Group

Number of beneficiaries: 31

Body authorising the 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 Remuneration Committee and provide for termination benefits 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:

- By mutual agreement: termination benefit equal to three times the annual remuneration.
- At the unilateral decision of the executive: no entitlement to termination benefit, unless the decision to terminate the employment relationship is based on the serious and culpable breach by the Company of its obligations, the position is rendered devoid of content, or in the event of any of the other cases of remunerated termination provided for in Article 10.3 of Royal Decree 1382/1985.
- As a result of termination by the Company: termination benefit equal to that described in the first point.
- At the decision of the Company based on the serious wilful misconduct or negligence of the executive in discharging his duties: no entitlement to termination benefit.

These conditions are alternatives to those derived from changes to the pre-existing employment relationship or the termination thereof due to pre-retirement for the CEO and senior executives.

Post-contractual non-competition clause:

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

B) Other disclosures concerning the Board of Directors

Pursuant to Article 127 ter. of the Spanish Corporations Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the consolidated Spanish Corporations Law, in order to reinforce the transparency of publicly 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 Director	Employer Identification Number of the Company in Question	Name of the Company in Question	% of Ownership	Position
Rafael Miranda Robredo	A 78003662	Enagas, S.A.	0.00079	None
Francisco Núñez Boluda	A 48010615	Iberdrola, S.A.	0.00013	None
	A 28005239	Unión Fenosa, S.A.	0.00098	None
Juan Ramón Quintás Seonae	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 de España, S.A.	0.00028	None
	00811720580	Enel, S.p.A.	0.00004	None
José Serna Masiá	A 48010615	Iberdrola, S.A.	0.00091	None
	A 28005239	Unión Fenosa, S.A.	0.00098	None
Manuel Ríos Navarro	00811720580	Enel, S.p.A.	0.00008	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 2005, 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 2005 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.

25. Guarantee commitments to third parties and other contingent assets and liabilities

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 EUR 150 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 EUR 700 million for each power plant.

At 31 December 2005, the Endesa Group had provided guarantees to third parties in connection with its business activities totalling EUR 187 million.

At 31 December 2005, the Group was entitled to receive until 2010 remuneration for the transition to competition for a maximum amount of EUR 828 million. This amount is reduced by the income received by the Group from electricity sales made in the wholesale production market with an average price that exceeds EUR 36.06 per MWh. In view of the current price situation in the wholesale production market, the Group's directors consider that no additional amounts of remuneration for the transition to competition will be received directly. The accompanying consolidated balance sheet does not include any asset in this connection.

26. Other disclosures

Fees paid to auditors

The detail of the fees for the services provided in 2005 and 2004 by the auditors of the financial statements of the various Group companies is as follows:

	Euros			
	2005		2004	
	Principal Auditor	Other Auditors of Subsidiaries	Principal Auditor	Other Auditors of Subsidiaries
Audit of financial statements	7,049,520	1,596,284	5,385,852	1,478,900
Audits other than of the financial statements and other audit-related services	1,189,132	568,674	1,327,432	785,115
Other non-audit services	2,032,159	655,770	1,834,426	732,320
TOTAL	**10,270,811**	**2,820,728**	**8,547,710**	**2,996,335**

Headcount

At 31 December 2005, Endesa had a total of 27,204 employees, of whom 12,709 work in the electricity business in Spain and Portugal, 2,153 in the electricity business in the rest of Europe, 12,317 in the electricity business in Latin America and 25 in other businesses.

27. Events after the balance sheet date

On 19 August 2005, a binding offer was submitted to the Polish Treasury Ministry to acquire up to 85% of the shares of the Polish producer Zespol Elecktrowni Dolna Odra, S.A. ("Dolna Odra") with an electricity capacity of 1,960 MW. On 7 November 2005, Endesa was selected by the aforementioned Ministry to negotiate the completion of the sale on an exclusive basis for one month, and on 5 December 2005, the exclusivity period ended successfully. On 9 January 2006, the European Commission notified Endesa Europa of its authorisation to conclude this transaction, which is now only pending an agreement with the employees.

28. Transition from Spanish GAAP to International Financial Reporting Standards (IFRSs)

Until 2004 the Group prepared its financial statements in accordance with the accounting principles and standards in force in Spain ("Spanish GAAP"). From 2005 onwards the Group is preparing its financial statements in accordance with the International Financial Reporting Standards adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council.

The figures for 2004 in these financial statements have been reconciled in order to present them in accordance with the same principles and criteria as those applicable to those for 2005, except for the fact that the Group applied the exception provided for in the IFRSs making it possible not to apply IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) for the financial statements for 2004.

The conversion of the Spanish GAAP financial statements to IFRSs involves applying these principles and criteria retrospectively, except in the following cases in which the Group decided to apply the exceptions provided for in the IFRSs:

- It was opted not to apply IFRS 3 retrospectively to business combinations occurring before 1 January 2004, and to retain the goodwill recognised in accordance with Spanish GAAP.
- The depreciated cost of the property, plant and equipment at 1 January 2004, was taken to be the depreciated cost of the assets including the asset revaluations made in accordance with the legislation in force in the countries in which the Endesa Group companies operate that had been accepted in the Spanish GAAP financial statements.
- The translation differences arising on or after 1 January 2004, were transferred to reserves.

The reconciliation of the equity at 1 January 2004, in accordance with Spanish GAAP and IFRSs is as follows:

	Millions of Euros		
	Equity of the Parent	**Equity of Minority Interests**	**Total**
Balance at 01/01/04 under Spanish GAAP	**8,801**	**-**	**8,801**
Inclusion of minority interests (a)	-	4,945	4,945
Recognition of goodwill in local currency (b)	(263)	(51)	(314)
Derecognition of deferred charges (c)	(247)	(9)	(256)
Equity accounting adjustments (e)	(189)	-	(189)
Provision for dismantling of assets (g)	(134)	-	(134)
Tax-related temporary differences (h)	(35)	(91)	(126)
Provision for major repairs (i)	39	-	39
Exchange gains (j)	57	-	57
Adjustment of other provisions to IFRSs (k)	178	9	187
Other adjustments	(28)	(52)	(80)
Balance at 01/01/04 under IFRSs	**8,179**	**4,751**	**12,930**

The reconciliation of the profit for 2004 and the equity at 1 January 2004, the date of transition to IFRSs, and at 31 December 2004, between Spanish GAAP and IFRSs is as follows:

	Millions of Euros			
	Profit	**Share Capital, Reserves and Translation Differences**	**Minority Interests**	**Total Equity**
Balance at 31/12/04 under Spanish GAAP	**1,379**	**8,098**	**(*)**	**9,477**
Inclusion of minority interests (a)	-	-	5,711	5,711
Recognition of goodwill in local currency (b)	-	(263)	(51)	(314)
Derecognition of deferred charges (c)	23	(247)	(9)	(233)
Amortisation of goodwill (d)	215	-	52	267
Equity accounting adjustments (e)	(26)	(189)	-	(215)
Adjustments for inflation (f)	(138)	-	(191)	(329)
Provision for dismantling of assets (g)	3	(134)	-	(131)
Tax-related temporary differences (h)	-	(35)	(93)	(128)
Provision for major repairs (i)	(15)	39	-	24
Exchange gains (j)	(35)	46	-	11
Adjustment of other provisions to IFRSs (k)	(157)	178	(10)	11
Other adjustments	4	(18)	(4)	(18)
Balance at 31/12/04 under IFRSs	**1,253**	**7,475**	**5,405**	**14,133**
Preference shares (l)	-	-	(1,500)	(1,500)
Measurement of derivatives (m)	-	(137)	(7)	(144)
Effect of companies accounted for using the equity method	-	(18)	-	(18)
Market value of publicly listed shares (n)	-	27	-	27
Derecognition of regulatory assets (o)	-	(64)	(67)	(131)
Balance at 01/01/05 under IFRSs	**1,253**	**7,283**	**3,831**	**12,367**

(*) Under Spanish GAAP, the balance of Minority Interests does not form part of Equity.

The main adjustments made to the consolidated financial statements for 2004 are as follows:

a) Inclusion of minority interests

Under Spanish GAAP, equity is made up only of equity corresponding to the shareholders of the Parent. However, under IFRSs equity includes the equity corresponding to the shareholders of both the Parent and the minority interests. Therefore, the balance of Minority Interests in the consolidated balance sheet of Endesa prepared in accordance with Spanish GAAP is included under the heading Equity in the IFRS consolidated balance sheet.

b) Recognition of goodwill in local currency

Under Spanish GAAP, goodwill is classified as an asset of the acquirer and, therefore, it is recognised in the acquirer's functional currency. However, under IFRSs, goodwill is deemed to be an asset of the company acquired.

Based on the above, Endesa had recorded a portion of the goodwill that arose on the acquisition of Latin American companies in euros; however, in accordance with IFRSs, this goodwill must be recorded in local currency. Since these companies were acquired, the related local currencies have depreciated with respect to the euro and, accordingly, the value of the goodwill is lower under IFRSs than under Spanish GAAP.

c) Derecognition of deferred charges

Under Spanish GAAP it is possible, under certain circumstances, to recognise as assets expenses such as deferred charges; however, under IFRSs, expenses of this nature may not be capitalised. Therefore, in order to convert the Spanish GAAP consolidated financial statements of Endesa to IFRSs, it was necessary to derecognise these capitalised expenses, which relate mainly to labour force restructuring costs to be recovered through costs of transition to competition ("CTCs"). Also, the capitalised debt arrangement expenses were deducted from the liability recognised in relation to this debt.

d) Amortisation of goodwill

Under Spanish GAAP, goodwill must be amortised systematically over a maximum period of 20 years. Pursuant to Spanish GAAP, Endesa has been amortising goodwill over 20 years, since this is considered the average period over which this goodwill will be recovered.

Under IFRSs it is not considered that there is a systematic decline in value of goodwill and, therefore, it is not amortised and the only thing necessary is to perform a periodic analysis of its recoverability. This analysis was also performed under Spanish GAAP. Therefore, the goodwill amortisation charge recognised in 2004 was eliminated when the IFRS consolidated income statement was prepared.

e) Equity accounting adjustments

Under Spanish GAAP, a significant influence is considered to exist when 3% or more of a publicly listed company is held. Therefore, such companies could be accounted for using the equity method. However, under IFRSs, in order to account for an investment using the equity method it is necessary to demonstrate that significant influence exists, which is presumed to be the case when an ownership interest of 20% or more is held.

In addition to the change in the companies thus accounted for, the difference in the value of the investees accounted for by the equity method arose mainly as a result of the effect of the adjustments made at these companies in the conversion from Spanish GAAP to IFRSs.

f) Adjustments for inflation

Under Spanish GAAP it was possible to retain adjustments for inflation at consolidated companies operating in countries whose accounting legislation permitted such adjustments.

Under IFRSs, in order to make such adjustments for inflation the country in which the company operates must be hyperinflationary, based on the requirements contained in IFRSs for countries to be classified as such.

The analysis performed disclosed that none of the countries in relation to which Endesa has been making adjustments for inflation, namely Chile, Colombia and Peru, qualify as hyperinflationary and, therefore, the adjustment for inflation made pursuant to Spanish GAAP in 2004 was reversed when the financial statements were converted to IFRSs.

g) Provision for dismantling of assets

When it is foreseen that at the end of the useful life of an asset it will be necessary to incur asset dismantling expenses, IFRSs require that these expenses be estimated and that the carrying amount of the assets be increased the present value of these expenses and that the related provision be recorded. When these estimated expenses are included in the carrying amount of non-current assets, they are depreciated over the useful life of the assets. Endesa made these calculations to reconstruct the cost and accumulated depreciation of the assets from the date on which they became operational and made the corresponding adjustment when the Spanish GAAP financial statements were converted to IFRSs.

h) Tax-related temporary differences

Under both Spanish GAAP and IFRSs, deferred tax assets or liabilities must be recognised for the differences for tax and accounting purposes in the dates on which liability for the tax arises.

Under Spanish GAAP; in order to recognise deferred taxes there must have been a timing difference between the date of recognition for accounting purposes and the date of the related tax return. However, IFRSs require the use of the balance sheet liability method, whereby any difference between the carrying amount and the tax base of an asset or liability gives rise to a deferred tax asset or liability that must be recognised. When Endesa's financial statements were converted to IFRSs, the adjustments required to comply with this requirement were included.

i) Provision for major repairs

Under Spanish GAAP, provisions must be recorded for the scheduled periodic maintenance of generating facilities so that when the overhauls are carried out the cost thereof has already been recognised in the income statement and provisioned. Under IFRSs such provisions may not be recognised, since it is not permitted to recognise expenses early or to recognise future liabilities and, therefore, the related costs are charged to income in the period in which they are incurred. Consequently, in the conversion of the consolidated financial statements prepared in accordance with Spanish GAAP to IFRSs, these provisions were derecognised.

j) Exchange gains

Under Spanish GAAP, exchange gains may only be recognised in income when they have been realised, until then they are classified as deferred income on the liability side of the balance sheet.

Under IFRSs, both foreign exchange losses and exchange gains are recognised in income on an accrual basis. Therefore, when the Spanish GAAP financial statements were converted to IFRSs, the liability recognised for unrealised exchange gains was eliminated.

k) Adjustment of other provisions

Under Spanish GAAP, the principle of prudence prevails over all other principles, making it possible to recognise provisions in accordance with the principle of prudence even if the probability of the risk materialising is less than 50% or in order to cover existing uncertainties.

Under IFRSs, in order to be able to recognise a provision, it must be more likely than not that the risk will materialise and it must be possible to measure the risk with sufficient reliability.

Based on these differences, certain of the provisions recognised by Endesa in the balance sheet at 31 December 2003, under Spanish GAAP were not acceptable under IFRSs. These include the provision for all the investment risk and direct and indirect loans relating to the Argentine companies. Since some of these provisions were reversed in 2004, the income recognised in accordance with Spanish GAAP in 2004 as a result of the reversal of the provisions did not constitute income for IFRS purposes because the provisions did not exist.

Elimination of extraordinary items

There are no extraordinary items in the IFRS income statement and, therefore, the extraordinary items recognised in the Spanish GAAP income statement must be reclassified to other headings based on their nature, which does not have an impact on the net profit, although it does affect the various margins in the income statement.

Netting off of power sales and purchases

Under IFRSs, the income of the electricity distribution activity in Spain is recorded only for the regulated margin recognised for this activity, since the remainder of the income recognised under Spanish GAAP relates to the automatic charging of certain costs of the distributor, chiefly power purchases.

Also, the sales to the wholesale market of the Group’s producer in Spain that are made in the same time band, and therefore at the same price, as the purchases made in that same market by the Group’s retailer are eliminated in accordance with IFRSs and, accordingly, neither the income nor the expense is disclosed.

Under Spanish GAAP, based on the formal transactions performed, both the income and the expense are disclosed.

The effect of netting off these expenses and income disclosed in accordance with Spanish GAAP led to a reduction in the income under IFRSs in 2004, although it did not have any effect on the net profit or on the various margins in the income statement.

Application of IASs 32 and 39

The main adjustments made at the beginning of 2005 on application of IASs 32 and 39 were as follows:

l) Preference shares

Under Spanish GAAP, since preference shares are shares of subsidiaries held by third parties, they are classified as minority interests. However, under IFRSs, since the holders of such shares are entitled to a dividend when Endesa reports a consolidated profit and, therefore, they do not have the capacity to decide whether a dividend is paid on these shares, they are classified as a financial liability.

m) Measurement of derivatives

Under Spanish GAAP, if derivatives are deemed to be hedging instruments they are not measured and the result they produce is allocated to income on an accrual basis. Derivatives that are not hedging instruments must be measured and a provision is recorded if the measurement carried out indicates a loss. No accounting entry is recognised if the measurement discloses a gain. IFRSs define more strictly the conditions that have to be met in order for a derivative to qualify for hedge accounting. Also, all derivatives are measured at fair value and are recognised in equity or in profit or loss, depending on the type of derivative involved.

n) Market value of publicly listed shares

Under IASs 32 and 39, investments in publicly listed companies over which a significant influence is exercised must be recognised at their market value. Under Spanish GAAP, such investments are recognised at the lower of cost and market if the percentage of ownership is lower than 3%; if it is 3% or higher, the investments are accounted for using the equity method. Therefore, at the beginning of 2005, when IASs 32 and 39 were applied for the first time, Endesa changed the value of these investments to reflect them at their market value.

o) Derecognition of regulatory assets

Under Spanish GAAP, certain Latin American regulatory assets were recognised as financial assets but did not qualify for recognition as such under IASs 32 and 39. Therefore, these items were adjusted in the first-time application of these IASs.

(29) Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

APPENDIX: Main Endesa Group companies

Company	% of Ownership		Country	Line of Business
	% of Voting Power Held	% of Ownership		
Electricity business in Spain and Portugal				
Endesa Generación, S.A.	100.00	100.00	Spain	Electricity production
Carboex, S.A.	100.00	100.00	Spain	Electricity production
Gas y Electricidad Generación, S.A.U.	100.00	100.00	Spain	Electricity production
Unión Eléctrica de Canarias Generación, S.A.U.	100.00	100.00	Spain	Electricity production
Endesa Red, S.A.	100.00	100.00	Spain	Distribution activities
Endesa Distribución Eléctrica, S.L	100.00	100.00	Spain	Distribution of electricity under the tariff system
Endesa Operaciones y Servicios Comerciales, S.L.	100.00	100.00	Spain	Provision of commercial services
Endesa Energía, S.A.U.	100.00	100.00	Spain	Marketing of energy products
Endesa Cogeneración y Renovables, S.A. (ECyR)	100.00	100.00	Spain	Cogeneration and renewable energies
Finerge – Gesto de Proyectos Energéticos, S.A.	100.00	100.00	Portugal	Cogeneration and renewable energies
Endesa Gas, S.A.U.	100.00	100.00	Spain	Gas production, distribution and retailing
Endesa Servicios, S.L.	100.00	100.00	Spain	Provision of corporate services
Electricity business in the rest of Europe				
Endesa Europa, S.L.	100.00	100.00	Spain	Endesa business activities in Europe
Endesa Italia, S.p.A.	80.00	80.00	Italy	Electricity production
Societé Nationale d´Electricité et de Thermique, S.A. (Snet)	65.00	65.00	France	Electricity production
International electricity business:				
Endesa Internacional, S.A.	100.00	100.00	Spain	Endesa Group international business activities
Enersis, S.A.	60.62	60.62	Chile	Electricity production and distribution
Empresa Distribuidora Sur, S.A. (Edesur)	99.45	45.69	Argentina	Electricity distribution and retailing
Chilectra, S.A.	98.25	59.57	Chile	Electricity distribution and sale
Empresa de Distribución Eléctrica de Lima Norte, S.A. (Edelnor)	60.00	38.26	Peru	Electricity production, transmission and distribution
Codensa, S.A.	48.48	43.95	Colombia	Electricity distribution and retailing
Endesa Chile	59.98	36.36	Chile	Complete electricity cycle
Empresa Eléctrica Pehuenche, S.A.	92.65	33.69	Chile	Complete electricity cycle
Central Hidroeléctrica de Betania, S.A.	85.62	31.13	Colombia	Electricity production
Edegel, S.A.	63.56	13.78	Peru	Electricity production and retailing
Empresa Generadora de Energía Eléctrica, S.A. (Emgesa)	48.48	35.62	Colombia	Electricity production
Endesa Brasil, S.A.	100.00	60.98	Brazil	Holding company
Companhía de Interconexao Energética, S.A. (Cien)	100.00	60.98	Brazil	Electricity production, transmission and distribution
Ampla Energía e Serviços, S.A. (Ampla)	91.93	55.57	Brazil	Electricity production, transmission and distribution
Companhía Energética do Ceará, S.A. (Coelce)	58.86	34.78	Brazil	Complete electricity cycle

ENDESA, S.A.
and
Subsidiaries

2005 Directors' Report

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

ENDESA, S.A. AND SUBSIDIARIES

DIRECTORS' REPORT

1. Analysis of 2005

Endesa's net profit amounted to EUR 3,182 million in 2005, the highest in its history and up 154% on that of 2004.

Even disregarding the effect of the capital gains obtained in 2005 on the sale of non-strategic assets, the net profit would have grown by a very high 60% with respect to 2004 in comparable terms, and, at EUR 1,841 million, would still have constituted an all-time high in Endesa's history.

	Increase in Net Profit			
	Millions of Euros	% Increase	% Contribution 2004	% Contribution 2005
Spain and Portugal	1,358	52.9	70.9	42.7
Rest of Europe	425	151.5	13.5	13.4
Latin America	262	106.3	10.1	8.2
Other businesses	1,137	1,547.8	5.5	35.7
Total	**3,182**	**154.0**	**100.0**	**100.0**

The net profit of all Endesa's electricity businesses increased sharply in 2005: that of Spain and Portugal grew by 52.9%, that of Europe by 151.5% and that of Latin America by 106.3%.

The net profit was distributed evenly among the various electricity businesses, thereby confirming the economic success of the Company's geographical diversification and multinational approach strategy.

Strong increases in output (+5.4%) and in electricity sales (+12.2%)

Endesa's industrial volume of business grew strongly in 2005, with increases of 5.4% in production and of 12.2% in total electricity sales. Growth was particularly notable in the European market outside Spain and Portugal.

	Electricity Output and Sales			
	Output		Sales	
	GWh	% Var./2004	GWh	% Var./2004
Spain and Portugal	93,625	(2.1)	100,868	4.3
Rest of Europe	33,749	34.7	47,221	46.8
Latin America	57,890	5.1	55,246	5.6
Total	**185,264**	**5.4**	**203,335**	**12.2**

The drop in output in Spain and Portugal was due to the exceptional non-availability of certain power plants for part of the year, mainly as a result of overhauls and maintenance and/or reconversion work.

In turn, the significant increase in output in Europe (+34.7%) was due to the rise in the output of Endesa Italia, which reflects the progress made with its fossil-fuel power plant repowering programme, and the contribution made by the French producer Snet, the output of which at 31 December 2004, only reflected four months of business. since its results only started to be fully consolidated with Endesa on 1 September 2004.

Lastly, the increase in output in Latin America (+5.1%) was largely due to the greater use of the power plants to cater for the increased demand, to the contribution made by the Ralco (Chile) hydroelectric plant in its first full year of operations and to the conversion to open cycle gas technology of the Etevensa (Peru) power plant. These facilities came into service in the latter part of 2005.

Output/demand balance

In 2005 Endesa used in-house production to cover 91.1% of its total electricity sales.

This equilibrium between output and demand significantly mitigated the risk of its electricity business, a competitive edge that is very important in the Spanish market, in which the Company covered 92.8% of its demand with in-house production.

This active management of the balance between output and demand reduces the Company's strategic exposure to the risk of price fluctuations in wholesale markets, which is of enormous importance at times of high prices such as those currently prevailing.

The increase in income far exceeded that in costs

The Company's sales totalled EUR 17,508 million in 2005, up 29.6% on 2004. The growth in sales was higher in economic terms than in physical terms, as a result of the price increases in which the higher costs borne by the businesses were passed on.

This income growth made it possible to cover fuel and energy purchase costs, which rose by 31.4% and 42.9%, respectively, as well as the CO_2 allowance costs.

Sharp increases in the contribution margin, the gross profit from operations and the net profit from operations.

Since income was sufficient to cover the cost increases, there were significant increases in the contribution margin (+23.8%), the gross profit from operations (EBITDA) (+33.2%) and the net profit from operations (EBIT) (+49.1%).

	Contribution Margin		**EBITDA**		**EBIT**	
	Millions of Euros	**% Var. 2004**	**Millions of Euros**	**% Var. 2004**	**Millions of Euros**	**% Var. 2004**
Spain and Portugal	5,202	19.5	3,266	32.1	2,264	58.1
Rest of Europe	1,223	47.4	887	65.8	618	67.0
Latin America	2,698	23.8	1,878	23.4	1,376	30.6
Other businesses	3	NA	(11)	NA	(14)	NA
Total	**9,126**	**23.8**	**6,020**	**33.2**	**4,244**	**49.1**

The electricity markets other than on the Iberian Peninsula accounted for 45.8% of the EBITDA and for 46.8% of the EBIT, thereby confirming the Company's multinational status.

Financial loss: EUR 1,252 million

The financial loss amounted to EUR 1,252 million in 2005, up 9.2% on 2004.

Finance costs totalled EUR 1,257 million in 2005, an increase of 15.6% with respect to the preceding year, partially as a result of the increase in the finance costs relating to provisions, which reflected an adjustment made exclusively for accounting purposes.

More specifically, the drop in long-term interest rates in 2005 means that the obligations relating to pensions and collective redundancy procedures were calculated at a rate of 3.588%, as compared with the rate of 4% used at 2004 year-end, which led to a greater provision of EUR 111 million in this connection which was recognised as a finance cost in 2005.

It should also be noted that in 2005 finance costs included EUR 60 million relating to the cost of the preference shares that in 2004, since IAS 32 was not applied, was treated as an expense relating to minority interests and, therefore, was not recognised as a finance cost.

Disregarding these effects, the Group's finance costs totalled EUR 1,146 million, down 0.1% from 2004.

Cash generated: increase of 23.1%

The cash generated by operations in 2005 amounted to EUR 4,209 million, up 23.1% on 2004. All the Company's electricity businesses achieved significant growth in this connection.

	Cash Generated	
	Millions of Euros	**% Var. /2004**
Spain and Portugal	2,669	34.9
Rest of Europe	586	14.7
Latin America	1,180	25.3
Other Businesses	(226)	NA
Total	**4,209**	**23.1**

Investments: EUR 3,640 million, 73.1% of which was invested in Spain and Portugal

Endesa's investments totalled EUR 3,640 million in 2005. Of this amount, EUR 3,342 million related to property, plant and equipment and intangible assets and the remaining EUR 298 million to financial assets.

Of the total amount invested, 73.1% related to the business in Spain and Portugal.

Also, EUR 1,581 million of the financing of the shortfall in income from regulated activities in Spain corresponded to Endesa.

Financial structure: improved gearing

Endesa's net debt stood at EUR 18,281 million at 31 December 2005, a drop of EUR 417 with respect to the figure at 1 January 2005.

This decrease arose despite the increase of EUR 920 million derived from the depreciation of the euro with respect to the other currencies in which the debt of Endesa and of its investees, mainly the Enersis Group, is denominated. Therefore, cash flow for the year made it possible to reduce the debt by EUR 1,337 million.

The breakdown of the debt by business at 31 December 2005, is as follows:

	Breakdown by Business of Endesa's Net Debt			
	Millions of Euros			
	31/12/05	01/01/05	Difference	% Var.
Electricity business in Spain and Portugal	11,461	9,586	1,875	19.6
Electricity business in Europe	1,286	2,123	(837)	(39.4)
Endesa Italia	815	1,293	(478)	(37.0)
Other	471	830	(359)	(43.3)
Electricity business in Latin America	6,109	5,350	759	14.2
Enersis Group	5,207	4,081	1,126	27.6
Other	902	1,269	(367)	(28.9)
Other businesses	(575)	1,639	(2,214)	(135.1)
Total	**18,281**	**18,698**	**(417)**	**(2.2)**

The average cost of Endesa's total debt was 5.46% in 2005 and that of the debt of the Enersis Group was 9.37%. Excluding the debt of the Enersis Group, the average cost of Endesa's debt was 4.05%.

The detail, by currency and interest rate, of the structure of the debt at 31 December 2005, is as follows:

	Structure of the Net Debt of Endesa					
	Endesa and Directly-Owned Subsidiaries		Enersis Group		Total Endesa Group	
	Millions of Euros	% of Total	Millions of Euros	% of Total	Millions of Euros	% of Total
Euro	12,853	98.3	2	-	12,855	70.3
US dollar	221	1.7	2,695	51.8	2,916	16.0
Other currencies	-	-	2,510	48.2	2,510	13.7
Total	13,074	100.0	5,207	100.0	18,281	100.0
Fixed	9,793	74.9	4,499	86.4	14,292	78.2
Protected	1,811	13.9	148	2.8	1,959	10.7
Floating	1,470	11.2	560	10.8	2,030	11.1
Total	**13,074**	**100.0**	**5,207**	**100.0**	**18,281**	**100.0**
Average term (no. of years)	5.3		5.5		5.4	

The average term of the Endesa Group's debt was 5.4 years at 2005 year-end. Noteworthy in relation to the structure of the debt is the high degree of interest rate hedging, with debt at fixed and protected rates accounting for 89% of the total.

The liquidity of Endesa in Spain and that of its directly-owned investees, excluding the Enersis Group, amounted to EUR 6,338 million at the end of 2005, of which EUR 4,266 related to drawable amounts: EUR 2,766 million unconditionally under credit lines; and EUR 1,500 million relating to a syndicated credit facility arranged on 22 April 2005. This liquidity covers the debt of these companies as a whole maturing in the coming 39 months. In turn, at the same date the Enersis Group had available cash totalling EUR 542 million and unconditionally drawable facilities of EUR 321 million in the form of two syndicated credit facilities covering its debt maturing in the coming ten months.

At 31 December 2005, Endesa's equity amounted to EUR 16,327 million, up EUR 3,960 million on 1 January 2005. This growth gave rise to a gearing ratio of 112% at 31 December, with respect to 151.2% at the beginning of the year.

As a result of Gas Natural's takeover bid for Endesa, the rating agencies Standard & Poors and Fitch Ratings decided to give the Company a "negative review" credit rating outlook, while Moody's changed the rating outlook from stable to negative. These changes were due to the negative impact that, if it were to proceed, the takeover would have on the Company's financial position.

Therefore, on 18 January 2006, Endesa's long-term credit ratings were "A" for Standard & Poors and Fitch, with a negative review outlook, and A3 for Moody's, with a negative outlook.

Divestments

In line with the Strategic Plan presented to the markets, in 2005 Endesa sold non-strategic assets of various types (telecommunications business, property assets, etc.) amounting to EUR 3,184 million for a net gain of EUR 1,341 million.

Sale of Auna

In 2005 Endesa sold 27.7% of the share capital of the Spanish telecommunications operator Auna for EUR 2,221 million, giving rise to a gain of EUR 1,115 million after tax.

The shares were sold to France Telecom under an agreement entered into on 29 July 2005, which was formally executed on 8 November 2005, once it had been approved by the European Union.

On 30 December 2005, the sale of Endesa's remaining investment of 5.01% to Deustche Bank for EUR 378 million was executed. Endesa is entitled to receive 90% of the selling price of the first transaction involving these shares that takes place on or after 8 November 2008, that exceeds EUR 361 million, capitalised annually at a rate of 4.5%. The gain on this sale, which amounted to EUR 171 million after tax, will not be recognised until the first quarter of 2006, since at 31 December 2005, the period that Auna's other shareholders have to exercise their pre-emption rights had not ended.

Other divestments

In 2005 Endesa pursued an asset divestment strategy, giving rise to gross gains of EUR 213 million additional to that obtained on the sale of Auna.

The divestments made include most notably the sale of all the shares of Smartcom to the Mexican operator América Móvil for USD 505 million (EUR 408 million), for a gain of EUR 51 million after tax.

Also, Endesa continued to sell property assets, with proceeds of EUR 122 million and a gross gain of EUR 105 million.

Proposed dividend for 2005

The Company's Board of Directors resolved to propose to the shareholders at the Annual General Meeting to pay a total gross dividend out of the profit for 2005 of EUR 2.4 per share, with a final dividend (EUR 2.095 per share) payable on 3 July 2006, giving a total dividend of EUR 2,541 million.

The dividend per share includes the interim dividend paid on 2 January 2006, and EUR 1.2666 per share derived from the total net gains obtained in 2005 on the sale of non-strategic assets, which totalled EUR 1,341 million.

This dividend represents a pay-out of 79.9% of the net profit for the year. Deducting the net gains mentioned above, the pay-out would have been 65.2%.

The dividend proposed, after discounting the component derived from the net gains on asset sales, is 53.5% higher than that paid out of the profit for 2004.

Fulfilment of the objectives in the Strategic Plan for 2004-2009

On 3 October 2005, as a result of the progress made towards achieving its objectives, Endesa updated and presented to the markets its Strategic Plan in a document entitled “Endesa: a better project, more value”, providing information on the targets that the Company has set itself for 2004-2009.

During this period the Company will give priority to returns for the shareholders, based on the strong organic growth of its businesses, while at the same time reinforcing the commitment of its management team to achieving profits.

The Company intends to achieve the following key aggregates:

- Cumulative annual earnings growth of over 12%.
- Cumulative annual EBITDA growth of between 10% and 11%.
- Gearing ratio of under 140%.

  It should be noted that these targets were set on the assumption that there would be a conservative regulatory scenario. The changes to this scenario that have taken place or that have been announced since the Strategic Plan was presented point towards a more favourable regulatory framework, which will make it possible to surpass these objectives with ease.

  Based on the fulfilment of these objectives, Endesa intends to apply a dividend policy that gives maximum priority to returns for the shareholders through the following criteria:

- Growth of over 12% in the dividend with a charge to ordinary activities, i.e. in line with the projected rise in the net profit.
- Distribution of 100% of the gains obtained on the divestment of non-strategic assets.

  The application of this dividend policy, which will be duly proposed to the shareholders for approval at the next Annual General Meeting, would lead to the distribution of more than EUR 7,000 million to the shareholders over the next five years.

As proof of its confidence in the feasibility of these objectives and of its commitment to the achievement thereof, the Company’s management team will propose to the shareholders at the AGM that their variable remuneration be tied in full to the Endesa share price and that 50% of this remuneration be reinvested in Company shares.

The results achieved in 2005 amply exceeded the targets set for the main economic aggregates indicated above:

- ✓ The net profit grew by 154%, well above the established minimum annual target of 12%.
- ✓ EBITDA increased by 33.2%, again well above the aforementioned objective of 10-11%.
- ✓ The gearing ratio was 112% at year-end, an improvement of 28 percentage points with respect to the ratio targeted in the Strategic Plan.
- ✓ The net gains on the sale of non-strategic assets amounted to EUR 1,341 million. Together with the dividend with a charge to ordinary activities, this amount will give a dividend of EUR 2,541 million that, if it is approved by the shareholders at the AGM, will be distributed to the shareholders, i.e. 36.3% of the objective established for the whole of 2004-2009.

In short, these results and the robustness demonstrated by the Company’s businesses in 2005, even against the highly demanding backdrop of the Spanish electricity market, confirm the feasibility of the Strategic Plan and, in particular, of the dividend policy included therein.

Also, current forecasts in relation to trends in the Company’s main economic aggregates in 2006 suggest that these strategic objectives can be surpassed.

Earnings by business

Electricity business in Spain and Portugal

High operating efficiency

Endesa maintained its leadership of the Spanish electricity market in 2005 with market shares of 38.1% in generation under the ordinary regime, 43.1% in distribution, 37.4% in sales to eligible customers and 41.1% in total sales to end customers.

Electricity output totalled 93,625 GWh in 2005, down 2.1% from 2004, due mainly to the fact that unit 4 of the As Pontes plant was unavailable, since it was converted to an imported coal-fired unit, and to the shutdown of the Vandellós power plant in the period from March to August for technical reasons.

Endesa's operating efficiency continued to improve in 2005 within the framework of the Efficiency Improvement Plan implemented in June 2005, the results of which have now started to emerge. In the last quarter of the year the fixed costs of this business were 4.4% lower than in the fourth quarter of 2004.

Also in the last quarter of 2005 Endesa implemented a pioneering initiative to purchase CO_2 emission allowances in order to achieve 15 million tonnes of emissions through 2012 through projects implemented under the flexible mechanisms envisaged in the Kyoto Protocol (the Joint Implementation and Clean Development Mechanisms). Noteworthy in relation to this initiative is the agreement with the Chinese company Huaneneg Group for the acquisition of emission reduction certificates for the emissions of the three wind farms owned by it.

Progress with the New Capacity Programme

Endesa continued to make progress in 2005 towards the fulfilment of its New Capacity Programme.

The last quarter of the year saw the start of the final phase of construction of the Cristóbal Colón (Huelva) 400 MW combined cycle plant, which is scheduled to come into service in early 2006. Also, work continued in 2005 on the construction of an 800 MW combined cycle unit at the As Pontes (A Coruña) power plant and on the conversion to the use of imported coal of unit 4 of this same plant. It should also be noted that the new combined cycle unit of the Besós (Barcelona) 800 MW power plant was included in the Cataluña Energy Plan.

Moreover, in 2005 the Company brought into service several wind-powered facilities with a total accumulated capacity of 149 MW, including the acquisition of all the shares of the Portuguese company Finerge Gestao de Proyectos Energéticos, S.A. (Finerge), a holding company which operates wind farms and combined heat and power plants in Portugal with an aggregate capacity of 107 MW and which has projects in progress that will give it a total capacity of 320 MW in 2007.

High growth rates in the Company's market

The demand served by Endesa in 2005 totalled 111,802 GWh, up 5.3% on 2004, which confirms the high growth potential of its market in Spain.

The number of customers supplied by Endesa in the regulated market increased by 249,263 in 2005. Also, at 2005 year-end Endesa had 998,154 customers in the liberalised market.

Improved supply quality

The Quality Excellence Plan implemented by Endesa over the last few years, which was significantly strengthened in the second half of 2005, contributed to the marked improvement in the Company's continuity of supply in 2005, which is particularly significant when it is considered that it was achieved in a context of strong demand growth.

In 2005 the cumulative total ICEIT (installed capacity equivalent interrupt time) improved by 25% with respect to the preceding year in the mainland markets supplied by the Company.

In the nonmainland market, disregarding the exceptional effects of hurricane “Delta” that hit the Canary Islands at the end of November, the ICEIT improved by 9%.

As regards customer service, Endesa’s rate of retention of customers passing over to the liberalised market was 87.6% in 2005, a higher percentage than that of its competitors, demonstrating the high degree of loyalty of the Company’s customers.

Net profit of the business in Spain and Portugal: increase of 52.9%

The net profit of this business amounted to EUR 1,358 million in 2005, representing an increase of 52.9% over 2004 and a contribution of 42.7% of the Company’s total net profit.

EBIT of the business: EUR 2,264 million (+58.1%)

The EBIT of the business in Spain and Portugal amounted to EUR 2,264 million in 2005, up 58.1% on 2004.

Sales increased by 31.8% to EUR 8,761 million, due largely to the increase in the price of sales to end customers and, above all, to the high prices in the wholesale market.

The increase in sales offset the significant growth in costs, mainly as a result of the rise in the price and volume of the sales and of the net cost generated by the shortfall in CO_2 emission allowances.

The low rainfall in the year, the increase in fuel costs and the cost of covering the shortfall in CO_2 emission allowances gave rise to a 75.1% increase in the average pool price, which stood at very high levels, as indicated earlier.

The limited increase (1.7%) in the electricity tariff did not cover the rise in system costs, and particularly in the generating costs included in the pool price. Accordingly, there was a shortfall in income from regulated activities in the industry estimated at EUR 3,580 million, of which Endesa must finance EUR 1,581 million. This amount was classified as a financial asset, since its recovery is guaranteed by Royal Decree 1556/2005, of 23 December, establishing the electricity tariff for 2006.

Also, the impact of the low rainfall and the increase in fuel costs on the profit of this business was limited because the Company has a more balanced production mix than its competitors and because it controlled the increase in costs through fuel management, to the extent that the fuel costs of its combined cycle plants is lower than the industry average.

Following is a detailed analysis of the EBIT of the business in Spain and Portugal.

Revenue: increase of 38%

The revenue of this business totalled EUR 9,274 million in 2005, an increase of 38% with respect to 2004.

Of this amount, EUR 8,761 million relate to sales, which were 31.8% higher than in 2004.

	Sales of the Business in Spain and Portugal			
	Millions of Euros			
	2005	2004	Difference	% Var.
Mainland production under the ordinary regime:				
Sales to eligible customers	1,487	1,247	240	19.2
Other sales through the market	3,012	1,891	1,121	59.3
Generation under the special regime	240	121	119	98.3
Regulated distribution revenue	1,602	1,564	38	2.4
Nonmainland generation	1,548	1,004	544	54.2
Coal CTCs	22	75	(53)	(70.7)
Technological CTCs	-	118	(118)	(100.0)
Retailing to eligible customers outside Spain	220	170	50	29.4
Regulated gas distribution revenue	39	36	3	8.3
Retailing of gas	326	160	166	103.8
Other	265	262	3	1.1
Total	**8,761**	**6,648**	**2,113**	**31.8**

Mainland production

Electricity demand grew by 4.6% in the Spanish mainland system in 2005. Production under the ordinary regime increased by 3% and that under the special regime by 10.4%.

Endesa's mainland output under the ordinary regime totalled 77,691 GWh in 2005, a drop of 3.8% with respect to 2004, as a result of two atypical circumstances: the unavailability for technical reasons of the Vandellós power plant from March to August; and the unavailability of unit 4 of the As Pontes power plant due to the work to convert it to the use of imported coal that was completed at the end of August. All the units of this power plant will have been converted by 2008.

Also, Endesa's output under the special regime totalled 2,120 GWh, up 19.6% on 2004, and this percentage was higher than that of the rest of the industry.

Competitive edge of Endesa's production mix

A comparison of the evolution of Endesa's mainland ordinary regime production structure with that of the rest of the industry in 2005 shows the strength of the Company's production mix and its greater stability in the face of the abrupt changes in rainfall that are so commonplace in Spain.

Endesa's hydroelectric output fell by 27.5% in 2005 with respect to 2004, whereas that of the rest of the industry dropped by 42.3%; also, the industry's thermoelectric output increased by 32.2%, whereas that of Endesa rose by only 5.2%.

Contribution of the coal-fired plants to meeting demand

The important role played by Endesa's coal-fired plants in meeting Spanish electricity demand was evidenced once again as a result of the low rainfall in 2005.

The load factor of these power plants was 86.5% based on the system's needs, which demonstrates that, despite the inclusion in the system of new combined cycle and wind-powered capacity, the coal-fired plants continue to play a key role in catering for Spain's power needs.

More specifically, the output of Endesa's coal-fired facilities covered 15% of total mainland demand in 2005.

Increase in Endesa's sales to the pool

Sales of Endesa's output to the pool totalled EUR 4,940 million in 2005, an increase of 67.1% with respect to 2004, as a result of the 79.6% increase in the average income from the pool, including the supply guarantee.

The rise in fuel costs, the cost of covering the shortfall in CO_2 emission allowances and the lower use of hydroelectric plants as a result of the drought were the main factors behind this increase.

The average income from the pool, including the supply guarantee, was EUR 60.6 per MWh in 2005, as compared with EUR 33.8 per MWh in 2004.

Endesa's retailer and producer made purchases from the pool amounting to EUR 1,928 million. These purchases offset the power sold by the Company to the pool. In these transactions, the markets, the time bands and, therefore, the purchase and selling prices were the same.

The amount of these sales was offset by the purchases made by the retailer and the producer. As a result, the sales to the pool recognised in the consolidated income statement for 2005 amounted to EUR 3,012 million.

Output of Endesa's plants under the special regime

The companies in the special regime that are fully consolidated in Endesa produced 2,120 GWh of power in 2005, mainly through renewable energies, 19.6% more than in 2004. In addition, Endesa has investments in other companies under this regime that produced 3,850 GWh of power in 2005.

Income from special regime power sales relating to consolidated companies amounted to EUR 240 million in 2005, up 98.3% on 2004, which contributed to a profit from operations of EUR 100 million, an increase of 185.7% with respect to the preceding year.

Retailing to eligible customers

Endesa had 998,154 eligible customers at 31 December 2005, of which 942,082 are mainland liberalised market customers, 53,686 are nonmainland customers and 2,386 are customers in European liberalised markets other than Spain.

Endesa sold 36,773 GWh of power to these customers in 2005, 18.7% more than in 2004. Of this amount, 32,537 GWh were sold in the Spanish liberalised market, up 18.7% on 2004, and 4,235 GWh were sold in European liberalised markets, an increase of 18.8% with respect to the previous year.

Sales retailed in the Spanish liberalised market totalled EUR 1,605 million in 2005, up 23.6% on 2004. Of this total amount, EUR 1,487 million relate to the mainland liberalised market and EUR 118 million to the nonmainland market.

Lastly, income from sales to liberalised market customers in Europe (excluding Spain) amounted to EUR 220 million in 2005, an increase of 29.4% with respect to 2004.

Distribution

The power distributed by Endesa in the Spanish market amounted to 111,802 GWh in 2005, an increase of 5.3% on 2004.

The regulated income of the distribution business amounted to EUR 1,602 million, 2.4% more than in 2004. This increase does not reflect the investments and operating and maintenance costs that have to be incurred in order to increase the security and quality of supply.

Therefore, in order to achieve this objective, which is shared by all the market players and the attainment of which Endesa is particularly committed to, as evidenced by the investment of EUR 1,369 million made in 2005, it is absolutely essential that the new regulations governing the distribution activity acknowledge this effort through an appropriate level of remuneration.

Endesa supplied 64,095 GWh to customers in the Spanish regulated market in 2005. However, in accordance with International Financial Reporting Standards (IFRSs), the related billings were not recognised as income, since the only income from the distribution activity is the remuneration thereof included in the electricity tariff. The other items billed relate exclusively to the mere passing on of the costs incurred.

Nonmainland generation

Endesa produced 13,814 GWh of power in 2005, up 5% on 2004. Sales amounted to EUR 1,548 million, including the amount of the compensation for the additional costs of these systems.

Royal Decree 1747/2003 regulating the island and nonmainland electricity systems recognises the higher cost of generation in the latter than in the mainland system owing to the larger reserve margin required, to the extra cost of the specific technologies used and to the higher fuel costs.

This Royal Decree lays down the general principles that must be applied to determine the compensation deriving from these particular circumstances.

The specific methodology for quantifying this compensation has not yet been established, although a draft Ministerial Order has been prepared by the Ministry of Industry and sent to the Spanish National Energy Commission (CNE), which has submitted the related report to the Ministry of Industry.

Endesa's accounts include an item of income of EUR 212 million in 2005 relating to the compensation for the additional costs of the nonmainland systems in the period from 2001 to 2004. By recognising this amount, Endesa has reflected in its financial statements an asset for an amount on which the CNE submitted a favourable report to the Ministry of Industry. This figure is lower than that which would be obtained by applying the draft Ministerial Order drafted by the Ministry of Industry.

Also, income of EUR 177 million was recognised in relation to the compensation additional to the amounts collected through the electricity tariff in 2005 to cover the additional costs incurred in that year. This amount was calculated using the same methodology as that used by the CNE in its report to calculate the compensation for 2001-2004.

Technological CTCs and shortfall in income from regulated activities

As indicated above, the regulated income in 2005 was not sufficient to absorb the system costs, giving rise to a shortfall estimated at EUR 3,580 million. Pursuant to Royal Decree-Law 5/2005, of 11 March, Endesa must contribute 44.16% of the total amount of this shortfall, i.e. EUR 1,581 million.

Under Royal Decree 1556/2005, of 23 December, establishing the electricity tariff for 2006, Endesa is entitled to recover the amounts contributed in full, without prejudice to the fact that on 1 July 2006, the government will establish, through a Royal Decree, the specific procedure for their reimbursement.

Therefore, Endesa's financial statements at 31 December 2005, include a financial asset of EUR 1,581 million to reflect the entitlement to recover the amounts contributed in this connection.

Also, Endesa's technological CTCs amounted to EUR 118 million in 2004.

Distribution and retailing of gas

Endesa sold 21,134 GWh of gas in 2005 through the fully consolidated companies, representing an increase of 46.5% over 2004. Of this amount, 18,558 GWh were sold to customers in the liberalised market, up 58.2% on 2004, and 2,576 GWh were sold in the regulated market, 4.5% less than in the preceding year.

To the latter figure should be added 1,461 GWh relating to sales in the regulated market made by investees that are not fully consolidated. Therefore, sales in the regulated market totalled 4,037 GWh in 2005, a drop of 1.5% with respect to 2004.

As regards distribution, Endesa distributed a total of 5,713 GWh of gas in the regulated market, up 18% on 2004.

The 22,595 GWh sold in the liberalised and regulated markets, together with the 22,222 GWh of gas consumed by Endesa's power plants, give a total of 44,817 GWh, representing a total market share of 12%.

In economic terms, income from gas sales in the liberalised market amounted to EUR 326 million in 2005, an increase of 103.8% over 2004. The regulated income from the gas distribution activity amounted to EUR 39 million, 8.3% more than in the preceding year.

Other operating income

Other operating income totalled EUR 513 million in 2005, i.e. EUR 442 million more than in 2004.

This heading includes EUR 337 million relating to the recognition as income of a portion of the CO_2 emission allowances established for Endesa in the framework of the National Assignment Plan for emissions made in 2005.

Operating costs

The detail of the operating costs of the business in Spain and Portugal in 2005 and 2004 is as follows:

	Operating Costs of the Business in Spain and Portugal			
	Millions of Euros			
	2005	**2004**	**Difference**	**% Var.**
Procurements and services	4,072	2,367	1,705	72.0
Power purchased	875	434	441	101.6
Cost of fuel consumed	2,057	1,546	511	33.1
Power transmission expenses	273	189	84	44.4
Other procurements and services	867	198	669	337.9
Staff costs	1,041	985	56	5.7
Other operating expenses	1,034	1,028	6	0.6
Depreciation and amortisation charge	1,002	1,040	(38)	(3.7)
Total	**7,149**	**5,420**	**1,729**	**31.9**

Power purchased

In 2005 power purchases amounted to EUR 875 million, an increase of 101.6% with respect to 2004. The main component of this account relates to transactions performed in the wholesale production market. The increase in these purchases is connected with the 79.6% rise in the average pool price.

The remaining balance relates to gas purchases for retailing to eligible customers, which increased as a result of the 18.7% growth in sales to these customers and the rise in the price of gas.

Cost of fuel consumed

The cost of fuel consumed amounted to EUR 2,057 million in 2005, up 33.1% with respect to 2004.

This increase was due to the fact that, as a result of the drought, fuel oil-gas output, the unit cost of which is higher than that of the other technologies, was higher than in 2004, and to the across-the-board increase in raw materials costs in the international markets.

The impact of the increase in prices was cushioned by the active fuel procurement management policy applied by the Company, which enabled it to pay lower-than-market prices.

Other procurements and services

The balance of this expense heading amounted to EUR 867 million in 2005, EUR 669 million higher than in 2004.

This change was due to the recognition of EUR 522 million in relation to the expense incurred in acquiring the allowances required to cover the CO_2 emissions made in 2005, which totalled 51.9 million tonnes, 40.4 million tonnes in the mainland system and 11.5 million tonnes in the nonmainland systems.

The expense for the emissions made on the mainland was measured as follows:

- The portion of the emissions covered by the emission allowances assigned for no consideration was measured at the same price as that at which the related income was recognised, i.e. the market price at the beginning of 2005.
- The portion of the emissions covered by the allowances acquired on the market was measured at the cost price of these allowances.
- The portion of the emissions for which Endesa does not have allowances was measured at the market price of the allowances prevailing at 31 December 2005, i.e. EUR 21.88 per tonne.

The net effect of the income and expenses recorded in 2005 to cover CO_2 emissions amounted to EUR 185 million, which relates to an estimated shortfall in allowances of 8.5 million tonnes.

Staff costs

At 31 December 2005, the business in Spain and Portugal had 12,709 employees, 1.4% fewer than at 31 December 2004.

Staff costs amounted to EUR 1,041 million in 2005, up 5.7% on 2004. These costs include EUR 34 million relating to the future costs of the terminations expected as a result of the application of the Spanish Mining Plan for 2006-2012, which will be one of the cost reduction factors for the coming years, and EUR 12 million relating to the provision for the electricity tariff applicable to employees. Disregarding these effects, staff costs remained virtually unchanged.

Other fixed operating expenses

Other Fixed Operating Expenses amounted to EUR 1,034 million in 2005, up 0.6% on the preceding year.

It should be noted that the Other Fixed Operating Expenses in the last quarter of 2005 were 5.7% (EUR 20 million) lower than in the last quarter of 2004, evidencing the results of the Efficiency Improvement Plan that are starting to be observed.

Net finance costs: EUR 609 million

The financial loss amounted to EUR 609 million in 2005, of which EUR 602 million relate to net finance costs. This amount includes EUR 60 million relating to the cost of the preference shares, since in 2005 they were classified as a liability and, therefore, their cost was recognised as a finance cost. In 2004 these shares had been included as profit attributable to minority interests, since in that year IAS 32 was not applied and, therefore, the preference shares were treated as minority interests and not as a financial liability.

Also, the finance costs in 2005 include EUR 111 million relating to the reduction of the discount rate applied to the collective redundancy procedures from 4% to 3.588%.

On a like-for-like basis, net finance costs fell by EUR 70 million (12.5%) in 2005.

The net debt of the business in Spain and Portugal totalled EUR 11,461 million at 31 December 2005, as compared with EUR 9,586 million at the beginning of the year. This increase was brought about by, among other factors, the EUR 1,581 million relating to the rate shortfall, and by the investments in the distribution activity made during the year within the framework of Endesa's Quality Excellence Plan.

Results of companies accounted for using the equity method

The results of the companies accounted for using the equity method in the business in Spain and Portugal totalled EUR 44 million.

These results include, among other items, the contribution made by Nuclenor (EUR 19 million), by the investees in Portugal (EUR 9 million) and by the subsidiaries producing under the special regime (EUR 15 million).

Sales of assets: gain of EUR 96 million

In 2005 Endesa obtained a gross gain of EUR 96 million on the sale of non-strategic assets of the electricity business in Spain and Portugal.

Worthy of note in this connection were the sale of the land in Palma de Mallorca on which the building housing the registered office of GESA was located and the sale of the "Lepanto" building in Barcelona. These transactions gave rise to a gross gain of EUR 89 million, and an after-tax gain of EUR 75 million.

Cash generated by operations: EUR 2,669 million

The cash generated by operations in the business in Spain and Portugal amounted to EUR 2,669 million in 2005, an increase of 34.9% with respect to 2004.

Investments: EUR 943 million in generation and EUR 1,389 in distribution.

The investments of the business in Spain and Portugal in 2005 totalled EUR 2,660 million, the detail being as follows:

	Total Investments of the Business in Spain and Portugal
	Millions of Euros
Property, plant and equipment	2,382
Intangible assets	66
Financial assets	212
Consolidated companies	151
Total	**2,660**

	Capital Expenditure of the Business in Spain and Portugal
	Millions of Euros
Generation	943
Ordinary regime	799
Special regime	144
Distribution	1,389
Other	50
Total	**2,382**

89.6% of the total investment relates to property, plant and equipment, i.e. investments to develop or improve electricity production and distribution facilities in order to maintain Endesa's leadership of the Spanish market, meet the growing demand and improve service quality.

The breakdown of the capital expenditure reflects the considerable efforts that the Company has been making in recent years to improve supply quality, since distribution facilities account for 58.3% of the total capital expenditure. Also noteworthy was the significant increase in investments in the generation area aimed at expanding Endesa's production system, including most notably the investments to convert unit 4 of the As Pontes power plant, the construction of the combined cycle units at the Cristóbal Colón (400 MW) and As Pontes (800 MW) power plants and the increase in capacity under the special regime.

The amount corresponding to the acquisition of consolidated companies relates to the acquisition of the Portuguese renewable energy company Finerge for EUR 151 million in the third quarter of the year.

The financing of the shortfall in income from regulated activities (EUR 1,581 million) is also classified as a financial asset, although it is not included in the foregoing figures. Of this amount, at 31 December 2005, EUR 1,011 million had been disbursed.

Electricity business in Europe

Excellent economic results and solid growth projects

In 2005 Endesa confirmed its position among the leading five electric utilities in Europe, which is based on a unique business platform that demonstrates its significant profitability year after year.

Currently, Endesa has in the European electricity market outside Spain and Portugal total capacity of 9,397 MW that produced 33,749 GWh of power in 2005 and generated sales totalling 47,221 GWh of power. For comparison purposes, it should be noted that this production figure exceeds the total output of Endesa's third competitor in Spain and is approximately equal to one-half of the output of the second competitor in Spain.

During the year, the Company's business in Europe focused on meeting its two primary strategic objectives: to consolidate its current position and to seek growth opportunities.

As regards its main investees, the physical aggregates of Endesa Italia grew significantly: electricity output increased by 12% and power sales by 17.8%.

The Company was particularly active in the renewable energy field in order to diversify its production assets with technologies that do not give rise to emissions. In the fourth quarter of the year construction work commenced on two wind-powered facilities in Sicily that will have a total installed capacity of 56 MW and which are scheduled to come into commercial service in the summer of 2006. Also, an agreement was entered into with Merloni for the acquisition of 51% of the shares of MF Power, which owns three wind farms in Italy with a total capacity of 60 MW and, in fulfilment of the provisions of the framework agreement with Gamesa, in January 2006 the Company will receive the Iardino wind-powered facility in Naples (Italy) with an installed capacity of 14 MW.

Also, work continued according to schedule on the construction of the two 400 MW combined cycle units in Scandale (Calabria), a project initiated at the end of December 2004 on an equal-footing basis by Endesa and ASM Brescia.

Lastly, as established by the “Legge Finanziaria” of 2006, Endesa Italia’s non-current assets under Italian accounting principles were partially revalued. This revaluation was not taken into account in the financial statements in accordance with International Financial Reporting Standards (IFRSs). The accounting impact of this revaluation amounted to EUR 134 million, and this amount was recognised in Endesa’s profit for 2005.

Other significant events also took place in 2005, including most notably:

- The sale in February to ASM Brescia, a co-shareholder with Endesa of Endesa Italia, of 5.33% of the investment in the latter for EUR 159 million, giving rise to a net gain of EUR 24 million. Following this transaction, Endesa had an 80% ownership interest in Endesa Italia. This transaction impliedly places the value of Endesa Italia at EUR 2,989 million, 36.4% higher than the price paid by Endesa in 2001 for the initial acquisition of this company.
- The completion of the repowering work, through the conversion to combined cycle technology of unit 3 of the Ostiglia power plant and of unit 6 of the Tavazzano power plant.
- The agreement entered into with the Merloni Group for the retailing of power in the Italian retail market. The power sold will be supplied from Endesa Italia’s generating facilities. The Merloni Group has more than 2,000 customers to which it sells more than 2 TWh of power.
- The letter of intent signed for the implementation of the project involving the construction and operation of the Leghorn (Tuscany) regasification terminal, which would enable Endesa to acquire up to 25.5% of the shares of the owner of the project and to have up to 2 bcm of regasification capacity at this terminal.
- The distribution in February of a dividend of EUR 102 million.

As regards the French producer Snet, in which Endesa holds a controlling interest of 65%, the measures taken in the year are described in the Industrial Plan presented to the markets in early 2005, which envisage the development of new capacity, through the future use of its current sites, totalling 2,000 MW at combined cycle plants and 200 MW at renewable energy facilities.

As part of this Plan, among other actions, Snet renegotiated the contract for power sales to EDF, signed a coal supply contract and entered into certain agreements with the trade unions in order to achieve peaceful industrial relations and the labour force optimization objectives of the Company. Also, the Company obtained the permits required to commence construction of the Lehaucourt wind farm, which will have a capacity of between 8 MW and 10 MW, and sold to Ecofin Ltd. its 23.62% investment in the producer Séchilienne-Sidec for EUR 104 million.

In addition, the merger of its three operators (Setne, Setcm and Snet) was successfully completed and Snet acquired an additional stake of 4.36% in the Polish combined heat and power plant Bialystock, giving it a controlling interest of 69.58% in the latter at the end of the year.

In 2005 the Board of Directors of Snet paid its shareholders an interim dividend of EUR 21 million, of which EUR 14 million corresponded to Endesa Europa.

Lastly, on 9 January 2006, the European Commission authorised the privatisation of the Polish company Dolna Odra, and the negotiations for its definitive acquisition by Endesa are expected to be completed in the next few weeks.

151.5% growth in the net profit

The net profit of the electricity business in Europe amounted to EUR 425 million in 2005, up 151.5% on 2004. The detail, by country, of the output and sales figures is as follows:

	Endesa's Output and Sales in Europe by Country					
	Output (GWh)			Sales (GWh)		
	2005	2004	% Var.	2005	2004	% Var.
Italy	23,362	20,865	12.0	30,911	26,246	17.8
France (1)	8,689	3,591	142.0	14,612	5,329	174.2
Poland (1) (2)	1,698	597	184.4	1,698	597	184.4
Total	**33,749**	**25,053**	**34.7**	**47,221**	**32,172**	**46.8**

(1) The 2004 figures relate to the last four months of the year only, the period in which Endesa controlled Snet.

(2) Endesa has a presence in the generation business in Poland through the Bialystock coal-fired plant controlled by Snet.

EBIT: increase of 67%

The detail of the EBITDA and EBIT of the electricity business in Europe is as follows:

	EBITDA and EBIT of the Business in Europe					
	EBITDA (Millions of Euros)			EBIT (Millions of Euros)		
	2005	2004	% Var.	2005	2004	% Var.
Endesa Italia	694	510	36.1	542	382	41.9
Snet (1)	179	43	316.3	62	6	933.3
Energy management	46	1	N/A	46	1	N/A
Holding co. and other	(32)	(19)	N/A	(32)	(19)	N/A
Total	**887**	**535**	**65.8**	**618**	**370**	**67.0**

(1) The 2004 figures relate to the last four months of the year only, the period in which Endesa controlled Snet.

Worthy of note is the contribution of EUR 46 million to the EBIT made by energy management transactions. Endesa can perform these transactions at no risk thanks to the generating base that it has in Italy and France.

Endesa Italia: excellent performance of the main aggregates

The main operating aggregates of Endesa Italia in 2005 and 2004 were as follows:

	Main Aggregates of Endesa Italia			
	Millions of Euros			
	2005	2004	Difference	% Var.
Revenue	2,242	1,680	562	33.5
Contribution margin	853	717	136	19.0
EBITDA	694	510	184	36.1
EBIT	542	382	160	41.9

The revenue of the Italian utility grew by 33.5%, due largely to the 17.8% increase in the volume of power sold.

30,911 GWh of power were sold in 2005, as compared with 26,246 GWh in 2004. Of this amount, 7,549 GWh relates to power acquired from third parties at a cost of EUR 292 million, i.e. 2,168 GWh more than in 2004.

The Company produced 23,362 GWh of electricity in 2005, representing a rise of 2,497 GWh (12%) with respect to the preceding year. It has an 8.1% share of the Italian market.

The progress made with the thermoelectric generating facility repowering programme enabled it to increase its output with a more efficient production mix, in which production with fuel oil-gas has been replaced with production using combined cycle gas plants, and gave it more capacity to control the effects of fuel price increases.

Therefore, the fuel costs of Endesa Italia increased by only EUR 241 million in 2005. This figure is well below the increase in revenue due to the higher electricity prices arising from the passing on of the increase in fuel prices.

The positive effects of the repowering programme are also evident when the breakdown by technology of the company's output in 2004 is compared with that in 2005: the percentage accounted for by combined cycle gas output increased from 30.4% to 50.4%, whereas the use of fuel oil-gas dropped from 31.1% to 16.2%.

The heading "Other Procurements and Services" includes, among other items, the estimated cost of the CO_2 emissions made in 2005 amounting to EUR 21 million that will foreseeably not be covered by the assignment of emission allowances to be made by the Italian government based on the proposal sent by it to the European Union, which has not yet been approved.

Also, 23 June 2005, saw the publication of the Royal Decree that establishes the way in which Endesa Italia will collect the EUR 169 million of costs of transition to competition that correspond to it in 2005-2009.

Of the total amount approved, EUR 33 million were classified as additional income in the 2005 income statement. The remaining EUR 136 million were deferred on the basis of the useful life of the facilities affected.

Reduction of the debt of this business by EUR 837 million

The net financial liabilities of the business in Europe amounted to EUR 1,286 million at 31 December 2005, down EUR 837 million (39.4%) with respect to the EUR 2,123 existing at the beginning of the year.

The financial loss amounted to EUR 64 million in 2005, EUR 2 million lower than in 2004.

Income tax

Income Tax includes EUR 134 million relating to the tax benefit associated with the partial revaluation of assets permitted in Italy under the "Legge Finanziaria" of 2006.

Cash generated: increase of 14.7%

The cash generated by operations of this business totalled EUR 586 million, up 14.7% on 2004.

Investments: EUR 308 million

The electricity business in Europe invested EUR 308 million in 2005. Of this amount, EUR 283 million related to investments in property, plant and equipment and intangible assets, of which EUR 209 million relate to Endesa Italia and EUR 74 million to Snet.

Investments in financial assets in 2005 amounted to EUR 25 million and include the acquisition of the shares of the minority interests of Sodelif and Bialystock (subsidiaries of Snet) for EUR 6 million and EUR 4 million, respectively. In these transactions ownership interests of 15.86% in Sodelif and 4.36% in Bialystock were acquired.

Divestments

In 2005 Endesa made the following divestments in its business in Europe:

- The sale of an investment of 5.33% in Endesa Italia to ASM Brescia for EUR 159 million, giving rise to a net gain of EUR 24 million.
- The sale of Snet's 23.62% ownership interest in the producer Séchilienne-Sidec for EUR 104 million, for a gross gain of EUR 48 million (EUR 26 million after tax and minority interests).
- The sale of Endesa's 18% ownership interest in the Moroccan water utility Lydec for EUR 26 million, giving rise to a net gain of EUR 12 million.

Electricity business in Latin America

Taking full advantage of the economic recovery in the region: significant increases in output and sales

In 2005 Endesa's business in Latin America took full advantage of the economic recovery in the region. In this context, which was more favourable that in previous years, this business demonstrated its profitability potential and, at the same time, continued with its financial strengthening and corporate optimisation process, consolidating Endesa's position as the leading electricity multinational in Latin America, with a capacity of 14,095 MW, total output of 57,890 GWh and sales of 55,246 GWh to 11.2 million customers.

The sustained economic growth and monetary stability that generally characterised 2005 created a favourable climate with significant increases in electricity demand in the markets supplied by Endesa's investees, whose power sales grew by an average of 5.6% with respect to 2004 in the areas in which they operate taken as a whole.

This higher demand led, in turn, to significant increases in the output of these utilities, with average growth of 5.1%.

This backdrop also triggered across-the-board increases in prices and the margins of their businesses. As a result, their EBIT grew by 10% in the generation and transmission business and by 43.4% in distribution.

Increase in physical sales in the generation and distribution businesses

Set forth below are the physical data relating to the generation and distribution activities of the Latin American investees of Endesa in 2005:

	Electricity Sales and Output of the Business in Latin America			
	Generation (GWh)		**Distribution (GWh)**	
	2005	**% Var./2004**	**2005**	**% Var./2004**
Chile	18,764	11.7	11,851	4.7
Argentina	16,154	1.7	14,018	5.2
Peru	6,895	21.9	4,530	6.6
Colombia	11,864	(0.1)	10,094	4.5
Brazil	4,213	(13.8)	14,753	7.1
Total	**57,890**	**5.1**	**55,246**	**5.6**

Improved generation and distribution margins

The rise in demand and the narrowing of reserve increased the unit margin obtained by the producers by 9.9% with respect to 2004 to USD 21.1 per MWh of power produced.

It should be noted that this increase was achieved despite the rise in liquid fuel prices and the gas restrictions that affected Chile and Argentina.

The improved pass-through of the generation prices achieved in the tariff revisions carried out in 2005, together with the operating efficiency of the companies gave rise to a significant increase in the operating margins of the distributors. Their VAD was USD 30.3 per MWh distributed in 2005, an increase of 28.9%.

Regulatory developments

In the last quarter of 2005 work continued on perfecting the regulatory frameworks in which Endesa's investees in Latin America carry on their business activities.

In October 2005 Endesa, together with the other producers in Argentina, entered into the Final Agreement with the Secretariat of State for Energy for the management and operation of the projects aimed at readapting the Wholesale Electricity Market (MEM). This agreement constitutes the continuation of the Act of Adhesion entered into in December 2004, under which the producers agreed to participate in a trust fund set up to finance the investments required to increase Electricity Supply in the Wholesale Electricity Market (FONINVEMEM).

On 9 December 2005, the memorandum of understanding in energy-related issues between Brazil and Argentina was signed for the transitional period from 2006 to 2008. Under this agreement, the two countries undertook to adapt the related legislation to make it possible to make contractual changes in relation to exports and imports.

Also, in December the Argentine Senate approved the agreement between Edesur and Uniren (the agency responsible for renegotiating and analysing public service contracts) to increase tariffs, although it has not yet been applied. Tariff revisions also took place in 2005 at Chilectra, Ampla, Coelce and Edelnor.

106.3% increase in net profit

The net profit of this business amounted to EUR 262 million in 2005, accounting for 8.2% of Endesa's total net profit and representing growth of 106.3% with respect to 2004.

EBIT: growth of 30.6%

The detail, by activity, of the EBITDA and (EBIT) of Endesa's business in Latin America is as follows:

	EBITDA and EBIT of the Business in Latin America					
	Millions of Euros					
	EBITDA			EBIT		
	2005	2004	% Var.	2005	2004	%Var.
Generation and transmission	1,037	914	13.5	768	698	10.0
Distribution	898	663	35.4	677	472	43.4
Other	(57)	(55)	NA	(69)	(116)	NA
Total	**1,878**	**1,522**	**23.4**	**1,376**	**1,054**	**30.6**

The following tables show a breakdown of EBITDA and EBIT by business in the countries in which Endesa carries on its business activities through fully consolidated companies.

	EBITDA and EBIT of Endesa in Latin America by Business					
	Millions of Euros					
	EBITDA			EBIT		
	2005	2004	% Var.	2005	2004	% Var.
Generation and transmission						
Chile	365	266	37.2	248	179	38.5
Colombia	232	220	5.5	183	178	2.8
Brazil – Generation	128	98	30.6	111	84	32.1
Brazil – Transmission	55	68	(19.1)	38	54	(29.6)
Peru	154	127	21.3	114	90	26.7
Argentina - Generation	93	123	(24.4)	66	101	(34.7)
Argentina – Transmission	10	12	(16.7)	8	12	(33.3)
Total	**1,037**	**914**	**13.5**	**768**	**698**	**10.1**
Distribution						
Chile	192	168	14.3	168	147	14.3
Colombia	236	206	14.6	165	139	18.7
Brazil	329	145	126.9	262	96	172.9
Peru	74	69	7.2	44	40	10.0
Argentina	67	75	(10.7)	38	50	(24.0)
Total	**898**	**663**	**35.4**	**677**	**472**	**43.4**

Generation and transmission

Chile

In 2005 generation in Chile was adversely affected by the natural gas supply problems that made it necessary for the fossil-fuel plants to replace natural gas with more expensive liquid fuels.

In the case of Endesa's investees, this effect was more than annulled by the 11.7% increase in the output of the hydroelectric facilities, due in particular to the entry into service of the Ralco power plant in September 2004 and to the node price increases derived from the change in the energy matrix as a result of the gas supply crisis. All this led to an increase of 38.5% in the EBIT with respect to 2004 to EUR 248 million in 2005.

Colombia

Although the volume of power produced in 2005 remained virtually unchanged from 2004, the positive effect of the rise in the value of the Colombian peso against the euro pushed the EBITDA up to EUR 232 million (up 5.5%), thereby increasing the EBIT by 2.8% to EUR 183 million.

Brazil (Generation)

Electricity output in Brazil dropped by 13.8% in 2005 as a result of the gas supply problems that hit Endesa Fortaleza. However, the positive effect of the decrease in fuel consumption, of higher prices and of the rise in the value of the Brazilian real with respect to the euro gave rise to increases of 30.6% in EBITDA and of 32.1% in EBIT to EUR 128 million and EUR 111 million, respectively.

Brazil (Transmission)

The difficulties encountered in having sufficient electricity available in Argentina for export to Brazil as a result of the aforementioned gas supply problems had an adverse effect on the results of the interconnection between the two countries, giving rise to EBIT of EUR 38 million in 2005, EUR 16 million lower than in 2004.

Peru

Power sales totalled EUR 299 million in 2005, up 3.5% on 2004. The effect of the lower prices as a result of higher rainfall was offset by the 21.9% increase in output.

The higher rainfall made it possible to reduce fuel costs by EUR 35 million, which contributed to the EUR 27 million increase in EBITDA and the EUR 24 million rise in EBIT, which amounted to EUR 154 million and EUR 114 million, respectively.

Argentina

The aforementioned gas supply problems gave rise to a significant increase in fuel costs (+48.5%) as a result of the need to produce electricity using liquid fuels. Therefore, although physical sales rose by 1.7%, margins dropped.

As a result, EBITDA fell by 24.4% and EBIT by 34.7% to EUR 93 million and EUR 66 million, respectively.

Distribution

Chile

The EBITDA and EBIT of the distribution business increased by 14.3% with respect to 2004. This increase was due to the fact that the higher sales triggered by greater demand offset the drop in margins as a result of the most recent tariff revision.

Colombia

The EBITDA and EBIT of the distribution business in Colombia increased by 14.6% and 18.7%, respectively

These increases were brought about by a 10.5% rise in sales to EUR 400 million, which was sufficient to absorb the higher electricity purchase costs, and by the increase in the value of the Colombian peso against the euro.

Brazil

Distribution sales in Brazil amounted to EUR 1,319 million in 2005, an increase of 53.7% over 2004.

This increase was due to the rise in margins as a result of the improvement in the pass-through of generation prices and, to a lesser extent, to the increase in the volume of power sold.

Also, the higher income from electricity sales amply absorbed the rise in costs, which increased the EBITDA and EBIT of the distribution business by 126.9% and 172.9%, respectively, to EUR 329 million and EUR 262 million, respectively, with respect to the preceding year.

Peru

The EBITDA of the distribution business in Peru amounted to EUR 74 million in 2005, up 7.2% on 2004. In turn, the EBIT of the business grew by EUR 4 million (10%) in 2005 to EUR 44 million.

This growth was due to higher sales, which amounted to EUR 298 million in 2005, an increase of EUR 36 million with respect to 2004, as compared with the increase of EUR 22 million in electricity purchases.

Argentina

In 2005 the EBITDA and EBIT of the distribution business in Argentina fell by EUR 8 million and EUR 12 million, respectively, with respect to 2004.

A significant part of this decrease was attributable to the fact that the figures for 2004 included EUR 10 million relating to the indemnity received from Alstom as a result of the Azopardo supply incident.

The remainder was due to the increase in energy purchases and fixed costs, which was not offset by the increase in income, something that could change in the future within the framework of the forthcoming tariff revision.

Financial strength: 3% improvement in financial earnings

The financial loss of the electricity business in Latin America amounted to EUR 524 million in 2005, down EUR 16 million from 2004.

Exchange differences improved by EUR 103 million, from exchange losses of EUR 87 million in 2004 to exchange gains of EUR 16 million in 2005.

Net finance costs amounted to EUR 540 million, up EUR 87 million (19.2%) on 2004. This increase was due to the drop in value of the euro against the Latin American currencies and the US dollar, which led to an increase in the borrowings in these currencies measured in euros and, therefore, to an increase in the borrowing costs associated with the borrowings in these currencies.

The net borrowings of the business in Latin America amounted to EUR 6,109 million at 31 December 2005, representing an increase of EUR 759 million with respect to 1 January 2005.

This increase was basically the result of the drop in value of the euro with respect to the currencies in which Endesa's investees in Latin America have arranged their borrowings, which gave rise to an increase of EUR 912 million in these borrowings.

Therefore, disregarding the effect of this depreciation, the debt of this business would have fallen by EUR 153 million, after having paid dividends and capital reductions to the Group's shareholders and minority interests totalling EUR 533 million.

Performance of Enersis and Endesa Chile in the financial markets

The positive operating performance of Endesa's Latin American business was reflected in the share price of Enersis and Endesa Chile, which rose by 18.7% and 55.1%, respectively, on the Santiago de Chile Stock Exchange in 2005.

On the New York Stock Exchange, the market price of the shares of Enersis climbed by 29.1% in 2005, and that of Endesa Chile rose by 67.9%.

Cash generated: increase of 25.3%

The cash generated by operations in Endesa's Latin American business in 2005 amounted to EUR 1,180 million, up 25.3% on 2004.

Investments: EUR 670 million

The investments made by this business amounted to EUR 670 million in 2005, of which EUR 600 million related to property, plant and equipment, the detail being as follows:

	Capital Expenditure of the Latin American Business
	Millions of Euros
Generation	166
Distribution and transmission	390
Other	44
Total	**600**

In the last quarter of 2005 Endesa sold its 40% investment in the Dominican Republic company Cepm for EUR 20 million, giving rise to a gross gain of EUR 7 million (EUR 4 million after tax).

Optimisation of the corporate structure

In 2005 Endesa incorporated the subsidiary Endesa Brasil, to which all the Group's operating producers and distributors in Brazil were contributed. Endesa holds a direct ownership interest of 28.48% in Endesa Brasil, the remaining 71.52% being owned by the Enersis Group.

Also, within the framework of the corporate structure simplification policy, in 2005 the preparatory work was performed for the mergers of Elesur and Chilectra (Chile) and Edegel and Etevensa (Peru).

Construction of the San Isidro II and Palmucho (Chile) power plants

In 2005 Endesa Chile continued to build the San Isidro II combined cycle plant, which will ultimately have an installed capacity of 377 MW, and the Palmucho 32 MW hydroelectric plant.

In Peru work continued on the construction of Etevensa's second combined cycle plant, which will be called Etevensa II, and on the conversion of Etevensa I to combined cycle technology. The work on both plants is expected to be completed in 2006.

2. Events after the balance sheet date

The information of the events after the balance sheet date are included in Note 27 to the consolidated financial statements.

3. Outlook

At the beginning of October 2005 Endesa presented its Strategic Plan to the markets, which is founded on three basic principles:

- Returns for the shareholders
- Organic growth
- Commitment of the management team

Returns for the shareholders

Providing returns for the shareholders is the Company's main priority and is based principally on a commitment to pay dividends exceeding EUR 7,000 million over the next five years. This commitment is based on:

- The distribution of all the gains obtained on divestments of non-strategic assets.
- Annual growth in the dividend from ordinary activities of over 12%, in line with the projected rise in the net profit.

The distribution of gains constitutes a very significant volume of cash flows at short and medium term for the shareholders, since the related amounts include, at short term, the gains on the divestment already made in the telecommunications business, i.e. the sale of Auna and Smartcom, and, at medium term, the gains on the sale of property assets and of other non-strategic assets.

The growth in the dividend from ordinary activities is based on the development of the existing business platforms and on an ambitious efficiency improvement programme.

Organic growth

The organic growth will be based on Endesa's current extensive geographical presence in order to create value. This will be achieved by developing the asset base and improving efficiency and through the active management of the foreseeable regulatory changes, which will contribute to better reflecting the genuine situation of the business in Spain.

The Efficiency Improvement Plan will lead to an increase in the margin of EUR 525 million through 2009, a very significant part of which will be achieved through the reduction of fixed costs.

The organic growth will also be reflected in a sharp upturn in the EBITDA of both the Group as a whole and of the various lines of business.

Commitment of the management team

Endesa undertakes to achieve four key objectives in the aforementioned period in relation to four other fundamental aggregates or indicators:

- EBITDA. Cumulative annual growth of between 10% and 11%.
- Net profit. Cumulative annual growth of over 12%.
- Dividends. Growth in dividends from ordinary activities of over 12%; distribution of 100% of the gains obtained on the disposal of non-strategic assets.

- Gearing ratio. Below 140%.

As proof of its confidence in the feasibility of these objectives and of its commitment to the achievement thereof, the Company's management team will propose to the shareholders at the AGM that their variable remuneration be tied in full to the Endesa share price and that 50% of this remuneration be reinvested in Company shares.

Evolution of the main operating aggregates

Endesa's growth projections for 2005-2009 are based on the large-scale development of its asset base, as reflected by the investment plan projected for that period amounting to EUR 14,600 million.

In the business in Spain and Portugal, the increase in electricity demand will be higher than the EU average, which fully supports the industrial and economic sense behind the projected expansion of the installed capacity of the generating facilities by 6,250 MW.

The growth of this business will also be backed by the aforementioned Efficiency Improvement Plan and by the prospects of positive changes to the current regulatory framework.

As regards the business in Europe, Endesa Italia will increase and improve the technological structure of its production mix, with more than 1,700 MW of additional installed capacity and a greater emphasis on combined cycle technology.

In addition, it is planned to install 425 MW of new renewable energy capacity over the aforementioned period and to participate in two regasification projects under development that will enable the Group to buy gas at more competitive prices. The new regasification plants and the new renewable energy capacity will make it possible to maintain the current high unit margins, together with the projected improvements in operating efficiency.

The strategy concerning the French producer Snet will focus on reducing cost, improving efficiency and expanding capacity.

Also, Endesa's presence in Italy and France is generating additional business in the form of international energy purchase and sale transactions, which will increase in the coming years, and negotiations for Endesa's penetration of the Polish electricity market are underway. If this goes ahead, it will create a high-potential growth platform.

There will be a significant rise in the volume of generation and distribution activity of the business in Latin America during the period as a whole. This growth will be reinforced by improved asset efficiency. Also, the development of new capacity will focus on Chile and Peru, where Endesa's investees will have an additional 580 MW of capacity.

Lastly, the contribution of cash flow to Endesa through dividends and capital reductions has been established as a priority objective of this business.

4. Main risks associated with the Endesa Group's operations

The Endesa Group carries on its business activities in an environment in which there are outside factors that can affect the performance of its operations and its earnings. The main risks to which Endesa's operations are exposed are as follows:

Risks associated with operations and the industry

The Group's operations are subject to a wide range of regulations, and any changes made could have an adverse effect on the Group's business activities, economic position and results of operations.

The Endesa Group's operating subsidiaries are subject to wide-reaching legislation on tariffs and other aspects of their operations in Spain and in each of the countries in which they operate. Although Endesa substantially complies with all the laws and regulations currently in force, the Group is subject to a complex set of laws and regulations that both public and private bodies will attempt to apply. The introduction of new laws or regulations or changes in the laws and regulations currently in force could have an adverse effect on the Group's business activities, economic position and results of operations.

In particular, under Spanish law, pursuant to Royal Decree-Law 5/2005, if the overall costs of the electricity system, as calculated by the Spanish authorities for a given year, exceed the total amount of the electricity tariffs billed to end customers, certain companies, including Endesa, are obliged to finance this shortfall by paying a sum, set through regulations, equal to the difference between (i) these overall costs; and (ii) the total amount of the tariffs billed to the end customers ("tariff deficit"). In the case of Endesa, the Group's Parent is obliged to finance 44.16% of the shortfall in income from regulated activities.

The tariff shortfall exists because certain expenses included in the overall costs, above all the cost of power purchased on the wholesale market, are determined in a competitive market, whereas the government sets the electricity tariffs. Based on the legal nature and background of this financing, Endesa is entitled to a full refund of the amounts financed, although the government has to establish a specific procedure for the recovery thereof.

The Group's operations are subject to wide-reaching environmental legislation, and any changes made could have an adverse effect on the Group's business activities, economic position and results of operations.

Endesa and its operating subsidiaries are subject to environmental legislation which, among other things, requires the performance of environmental impact studies for future projects, the obtainment of the mandatory licences, permits and other authorisations and the fulfilment of all the requirements provided for in those de licences, permits and rules. As in the case of any other regulated company, Endesa cannot guarantee that:

- The public authorities will approve said environmental impact studies;
- Public opposition does not lead to delays or changes in the projects proposed; or
- The laws or rules will not be amended or interpreted in such a way as to increase the expenses that have to be incurred in meeting them or as to affect operations, plants or plans for the companies in which the Group has an investment.

In recent years certain legal requirements regarding the environment in Spain and the EU have been tightened. Although Endesa has made the investment required to comply with this legislation, its application and future changes could adversely affect the Group's business activities, financial position and results of operations.

In particular, Endesa must comply with the requirements contained in the National Assignment Plan, approved by Royal Decree 1866/2004, whereby the results of operations could be affected either by the price of the emission allowances or by a shortage of allowances in the market.

A considerable volume of the power produced by Endesa in certain markets is subject to market forces that might affect the price and volume of power sold by it

Endesa is exposed to market price risks for the purchase of the fuel (including fuel oil-gas, coal and natural gas) used to generate electricity and the sale of a portion of the power that it produces. Endesa has entered into long-term supply contracts in order to guarantee fuel supplies for its power production activities in Spain. Endesa has entered into certain natural gas supply contracts that contain “take or pay” clauses. These contracts were established on the basis of certain reasonable assumptions regarding future needs. In the event of very significant variances in the assumptions used, fuel purchases exceeding the Group’s needs might have to be made.

Since the prices envisaged in these contracts are not fixed, Endesa actively manages the market price risk over periods that are considered appropriate, although it cannot guarantee that such measures will eliminate all the market price risks relating to fuel needs.

The Group’s business could be affected by weather conditions

Endesa’s operations include hydroelectric production and, accordingly, depend on the weather conditions prevailing at any given time in the extensive geographic regions in which the Group’s hydroelectric generating facilities are located. If hydrological conditions result in droughts or other conditions that adversely affect the Group’s hydroelectric generation business, earnings could be negatively affected. Also, the electricity business is affected by atmospheric conditions such as average temperatures, which have an effect on consumption. The margin on the business changes on the basis of weather conditions.

The Group’s financial position and results of operations may be adversely affected if it does not effectively manage its exposure to interest rate and foreign currency exchange rate risk

The Group is exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations and, therefore, it actively manages these risks in order to avoid them having a significant effect on earnings. However, the risk management strategies may not be fully successful in limiting exposure to changes in interest rates and foreign currency exchange rates, which could adversely affect the Group’s financial position and results of operations.

Construction of new facilities may be adversely affected by factors commonly associated with such projects

The construction of power generation, transmission and distribution facilities can be time-consuming and highly complex. In connection with the development of such facilities, the Group generally has to obtain government permits and authorisations, land purchase or lease agreements, equipment procurement and construction contracts, operation and maintenance agreements, fuel supply and transportation agreements, off-take arrangements and sufficient equity capital and debt financing. Factors that may affect the Group’s ability to construct new facilities include:

- Delays in obtaining regulatory approvals, including environmental permits.
- Shortages or changes in the price of equipment, materials or labour.
- Opposition of political and ethnic groups.
- Adverse changes in the political and regulatory environment in the countries in which the Group operates.
- Adverse weather conditions that could delay the completion of power plants or substations, or natural catastrophes, accidents and other unforeseen events.
- Inability to obtain financing at rates that are satisfactory for Endesa.

Any of these factors may cause delays in completion or commencement of operations of the Group’s construction projects and may increase the cost of planned projects. If Endesa is unable to complete these projects, the costs incurred in connection with such projects may not be recoverable.

Endesa could be subject to environmental and other liability in connection with its operations

Endesa faces environmental risks inherent to its operations, including those derived from the management of the waste, spills and emissions of the generating facilities, particularly the nuclear power plants. Therefore, Endesa may be subject to claims for environmental and other damage in connection with its power generation, distribution and transmission facilities as well as its coal mining activities.

Endesa is also subject to risks arising from the operation of nuclear facilities and the storage and handling of low-level radioactive materials. Spanish legislation limits the liability of nuclear plant owners in the event of accidents. Such limits are consistent with the international treaties ratified by Spain. Spanish law provides that operators of nuclear facilities are liable for a maximum of EUR 150.3 million in relation to claims arising from a single nuclear accident. Endesa's potential liability in relation to its interests in nuclear facilities is fully covered by third-party liability insurance of up to EUR 150.3 million. Endesa's potential liability for pollution and other damage to third parties or their assets has also been insured for up to EUR 150 million. If a complaint were filed against Endesa for environmental or other damage caused by its operations (except for the nuclear plants) for amounts exceeding the insurance coverage, its business activities, financial position and results of operations could be adversely affected.

The liberalisation of the European electricity industry could lead to greater competition and lower prices.

The liberalisation of the electricity industry in the European Union (including the countries in which Endesa has a presence, such as Spain, Italy, France and Portugal) has led to increased competition as a result of consolidation and the entry of new market players in European Union electricity markets, including the Spanish electricity market. The liberalisation of the electricity industry in the European Union has also led to lower electricity prices in some market segments as a result of the entry of new competitors and cross-border energy suppliers and the establishment of European electricity exchanges, which have led to increased liquidity in the electricity markets. This liberalisation of the electricity market means that certain of Endesa's businesses are carried on in an increasingly competitive environment. If Endesa were not able to adapt to and adequately manage this competitive market, its business activities, financial position or results of operations could be adversely affected.

Risk relating to operations in Latin America

The Group's Latin American subsidiaries are exposed to certain risks, such as economic crises and political risks

The Group's operations in Latin America are exposed to certain risks inherent to investment and the performance of work in that area, including risks relating to the following:

- Changes in the government's administrative regulations and policies.
- Imposition of monetary restrictions and other restrictions on the movement of capital.
- Changes in the corporate or political environment.
- Economic crises, political instability and social disorder affecting operations.
- Public expropriation of assets.
- Exchange rate fluctuations.

Also, the income of the Latin American subsidiaries, their market value and the dividends collected therefrom are exposed to risks specific to the countries in which they operate, which might have an adverse effect on demand, consumption and exchange rates.

Endesa cannot predict how any future worsening of the political and economic situation in Latin America or any other change in the legislation of the Latin American countries in which it operates, including any change in current legislation or any other regulatory framework, would affect its subsidiaries or their business activities, economic situation or results of operations.

Other risks

The Group is involved in court proceedings and arbitration that could affect Endesa

The Group is involved in various legal proceedings relating to its business, including tax and regulatory disputes. It is also subject to tax audits that might be extended in the future. Although Endesa considers that it has recognised the appropriate provisions based on the legal contingencies at 31 December 2005, it cannot guarantee that the Group will be successful in all the proceedings or that an adverse decision might not significantly and adversely affect its business activities, financial position or results of operations.

Takeover bid

On 5 September 2005, Gas Natural SDG, S.A. applied to the Spanish National Securities Market Commission ("CNMV") for authorisation to make a takeover bid for all the shares of Endesa, S.A. The takeover bid is subject to the authorisation of the relevant administrative authorities. It could also be subject to the fulfilment of such conditions as might be imposed by the antitrust authorities which, as yet, are unknown. For this and other reasons, there is a degree of uncertainty as to its authorisation, formalisation and results. Should the bid be authorised and the acquisition ultimately take place, we cannot determine how the bid might affect Endesa's business activities, financial position and/or results of operations.

5. Technology, innovation and environmental protection

a) Technology and innovation

Endesa's commitment to Technology and Innovation ("T+I") is evidenced by its significant historical involvement in this field, in line with the Company's vision and mission, as the main response to the significant technical challenges posed by its businesses, basically quality, efficiency and the environment, in the service of its customers.

Endesa considers that the growing importance of T+I as the motor behind sustainable energy growth is the lever behind the development of its intangible assets, talent and technical know-how.

Endesa's T+I model is open and, apart from involving all the technical areas of its businesses and countries, is extended to suppliers, the authorities, universities and research centres throughout the world.

The T+I projects and activities are grouped together around the main axes of the Company's business model:

Generation

Endesa and its CIRCE Foundation (Zaragoza) actively lead, as the only Spanish representatives, the *Zero Emissions Fossil Power Plants* European technological platform, with a view to ensuring future clean generation using coal that could replace the current fossil-fuel facilities.

Also, Endesa leads the Spanish CO_2 platform set up in 2005, as well as the CENIT (Consorcio Estratégico Nacional para Investigación Técnica) consortium on CO_2, as part of the Spanish INGENIO 2010 programme, which coordinates the actions of 33 companies and research agencies, with a budget of EUR 27 million for the next four years.

Environment and sustainability

Endesa is a member of the CO_2NET European telematic network financed by the VI Framework Programme for the capture and storage of CO_2.

In the area surrounding the Meirama-Puentes power plants: the indications included in the legislation currently in force (EU Regulations) were followed in relation to the protection of the European Union's woodland against atmospheric pollution, completing the legislative requirements with certain additional studies such as analyses of branchelets, the copiche, etc., in order to obtain the maximum amount of information possible on the factors that cause harm to forests.

Endesa is a founder member of the Spanish Hydrogen Association and is a member of the Foundation for the Development of New Hydrogen Technologies in Aragón.

Endesa is participating in the PROFIT Project to increase energy efficiency and reduce greenhouse gas emissions at fossil-fuel plants.

E-business

Endesa has a firm commitment to the implementation of technological improvements in its business processes in order to drastically enhance their efficiency, reliability and availability.

Distribution, networks and Endesa Network Factory

All Endesa's network T+I initiatives are geared towards improving the quality of the service offered to its customers. This is achieved through service quality improvement programmes or through measures that respect the environment or increase efficiency, thereby freeing up resources that are used to enhance Endesa's networks.

Commercial area

The projects included in this T+I area aim to tailor Endesa's services to its customers' needs (residential, SMEs, Companies and Large Customers areas).

We study the efficient use of energy, with particular concern for the environment and sustainability.

For the residential area, Endesa Energía has launched a project for the modelling of electricity consumption in the residential sector in Cataluña, research is being conducted on the best way to segment the energy market, advanced techniques and capabilities for the management of commercial campaigns are being developed, and new value added services to be provided in the customer's home are being designed.

In the Companies segment, certain programmes are being implemented to develop energy installation control and management mechanisms with a view to fostering the management of preventative and corrective maintenance in their various applications and uses.

In the Large Customers segment, Endesa is improving efficiency in the management and quality of the provision of the current range of products through a continuous improvement system.

Knowledge management

Endesa considers it absolutely essential to manage its intellectual capital, talent and other intangible assets associated with its professionals, in such a way as to integrate and coordinate the learning (technical training) and knowledge management of all its employees, overcoming geographical, organisational and cultural obstacles.

Therefore, in order to promote a culture of innovation and knowledge management, Endesa has created the "E^3: Endesa Escuela de Energía" energy school, whose mission is to increase our capacity to share and generate knowledge and innovation, involving absolutely everyone in the creation of the future, the objectives of which are to create a channel that connects persons and teams with a desire and the capacity to be creative in order to facilitate thought, learning and teamwork that will make it possible to create new knowledge and value proposals that enhance the environment and generate growth opportunities for Endesa, whose philosophy is to fall in line with the Company's strategic needs as a whole, its cultural project, its talent management model and its strategy of making employees identify with its business project.

b) Environmental protection

One of the main pillars on which Endesa's business commitment to sustainable development is based is environmental protection. This attitude is a hallmark of the Company's track record and constitutes a fundamental trait of its behaviour that is expressly stated in its business values.

Endesa's environmental management is integrated and fully in tune with its corporate strategy and this commitment has a direct effect on the Company management's decision-making process.

The purpose of this commitment is to minimise the impact of the Company's activities on the environment in which it operates, focusing principally on issues relating to climate change, the implementation of environmental management systems, the appropriate management of spills, waste, emissions, polluted soil and other effects on the environment.

The Strategic Environmental and Sustainable Development Plan for 2003-2007 includes the plans and programmes that Endesa is carrying out in the sustainable development field in this period, and is fully in tune with the Company's values and its business mission and vision.

Endesa's environmental activities are aimed at preserving natural resources, evaluating the environmental risks associated with its business activities and ensuring excellence in management through the third-party certification of its facilities.

1. Spain and Portugal

2005 was the first year in which Law 1/2005 regulating greenhouse gas emission trading applied. This Law, which is the result of the transposition of Directive 2003/87/EC into Spanish law, regulates the participation of the Spanish companies affected in European emission trading.

Endesa, which operates in one of the industries to which the Directive applies, has put into practice the necessary strategy and tools developed over the years leading up to that in which the Law came into force.

Also, Endesa continued with its investment plan aimed at reducing greenhouse gas emissions by improving the efficiency of its facilities and investing in new renewable energy and combined cycle capacity.

Noteworthy in connection with the application of in-house designed efficiency and performance improvement technologies was the introduction of ABACO technology, designed jointly with the engineering firm Inerco, at some of Endesa's facilities.

In the area of emission trading, Endesa carried out emission allowance purchases from the European Union, participating actively in the European market.

A key part of Endesa's climate change strategy is its participation in the project-based emission reduction mechanisms. In 2005 Endesa confirmed its position as an internationally renowned actor in the CDM (Clean Development Mechanism) field.

Noteworthy in this regard was the launch of the Endesa Climate Initiative, with which Endesa aims to purchase 15 million tonnes of CO_2, five in 2005-2007 and the remaining ten in 2008-2012.

Also worthy of mention was the signing of the agreement with the Chinese company Huaneng for the purchase of 2.6 million tonnes of CO_2 through 2012 from a 195 MW wind-powered facility.

Also, based on the targets established in the Strategic Environmental and Sustainable Development Plan for 2003-2007, Endesa continued its work to implement and subsequently certify Environmental Management Systems pursuant to the international ISO 14001 standard and the European EMAS regulations at the facilities in the key areas of the Company (Generation, Distribution, Renewable Energies, Corporate Headquarters, etc.).

The following facilities of Endesa have achieved certification of their Environmental Management System (EMAS):

- The Jinámar (Las Palmas de Gran Canaria) fossil-fuel plant, under the UNE EN-ISO 14001 standard.
- The coal port terminal in El Ferrol, under the UNE EN-ISO 14001 standard and the EMAS Regulation.
- The Garraf joint venture, a degasification and biogas energy recovery plant at the Vall d´En Joan Controlled Landfill in Barcelona, under the UNE EN-ISO 14001 standard and the EMAS Regulation.

It is also expected to obtain EMAS certification, under the UNE EN-ISO 14001 standard, for the Andorra (Teruel) mine, which underwent the initial certification audit at the end of 2005.

In the distribution business, in line with the environmental management system implementation programme in the Strategic Environmental and Sustainable Development Plan for 2003-2007, in 2005 the documentation for the environmental management system for the Balearic Islands was prepared and the related environmental training was given, thereby initiating the implementation of the system in November 2005. In Aragón the preliminary phase of the Facility Diagnosis was performed, and in Cataluña the first annual review of the ISO 14001 EMAS certified in 2004 was conducted.

Also, the implementation of the EMAS at the Company's corporate headquarters was completed and certification is expected to be achieved for the other corporate buildings in the next few years.

Work continued on the ongoing improvement and adaptation of the waste management systems of the facilities, where the projects carried out included most notably the re-use of used oils, the minimisation of the production of container waste, the programmed retirement of components containing asbestos from the facilities, the use of batteries with a longer useful life or rechargeable batteries, the treatment and re-use of used cleaning solvents, as well as other measures aimed at reducing and minimising waste.

Work continued on the plan to eliminate and withdraw equipment with PCBs and on the campaign to analyse PCBs in equipment that despite not having been manufactured with PCBs, had become contaminated.

Also, in 2005 around four million tonnes of waste were recovered at Endesa's facilities, mostly ash produced by the coal-fired facilities.

In accordance with the programme established in the Cooperation Agreement between Gesa-Endesa and the Balearic Islands Department of the Environment, the activities included measures to protect the fishing eagle and the black kite which are in serious danger of extinction in the Islands. Also, under this Agreement, the Company asked to participate, with the Department of the Environment, in Project Life for the protection of the Egyptian vulture in Fuerteventura and the measures to be taken in 2006 were established.

Also, a Biodiversity Conservation Plan for 2006-2010 was drawn up in order to raise awareness of Endesa's natural heritage and to implement new projects in line with the sustainability policy that the Company includes within its main operating principles. Therefore, an analysis of the value and state of conservation of Endesa's natural heritage will be carried out to identify the biodiversity measures currently being taken at the Company and to plan new actions with the support of emblematic projects.

2. Europe

All the facilities of Endesa Italia have been certified under the ISO 14001 standard, thereby strengthening Endesa's environmental commitment at its facilities. This certification is complemented with the certification under the EMAS Regulation of all its fossil-fuel plants.

The most notable event in 2005 in relation to the subsidiary Snet was the approval of its Strategic Environmental and Sustainable Development Plan for 2005-2007, which contains the measures that will be taken in this connection during the period. Also noteworthy in relation to its environmental management was the implementation by Snet of the EMAS at all its generating facilities in 2005.

3. Latin America

In Latin America, Endesa, through its subsidiary Endesa Chile, continued to consolidate the implementation of Environmental Management Systems at its facilities, achieving in 2005 certification under the ISO 14001 standard for 47 generating facilities in Argentina, Brazil, Chile Colombia and Peru, meaning that 93% of the installed capacity in Latin America has now been certified.

Also, Chilectra, a Chilean distributor, has joined the ranks of the Latin American distributors that have achieved environmental certification (Edesur in Argentina, Codensa in Colombia and Edelnor in Peru), signifying that 76% of the power distributed by Endesa in Latin America has now been certified under the ISO 14001 standard. Also, both Ampla and Coelce (Brazilian distributors) started to implement their systems in 2005.

As evidence of its commitment to the development of renewable energies, Endesa formed Endesa Eco, a subsidiary of Endesa Chile, whose mission is to contribute to the development and promotion of renewable energies (mini-hydroelectric plants, wind farms, geothermal, solar, biomass and other plants) with clean and environmentally friendly technologies to satisfy the growing demand for energy and, in this way, guarantee sustainable development.

6. Human resources

At 31 December 2005, Endesa had 27,204 employees, of whom 12,709 belong to the electricity business in Spain and Portugal, 2,153 work in the electricity business in Europe, 12,317 work in the electricity business in Latin America and 25 engage in other businesses.

7. Risk management policy and derivative financial instruments

The information on the risk management policy and derivative financial instruments is included in Notes 17 and 18 to the consolidated financial statements.

8. Treasury shares

As authorised by the shareholders at the General Meetings on 2 April 2004 and 27 May 2005, and to facilitate the liquidity of trading in its shares at particular times, in 2005 Endesa, S.A. acquired 250,613 treasury shares for EUR 4 million (at an average price of EUR 17.91 per share) and sold 250,613 shares for EUR 4 million (at an average price of EUR 18.51 per share).

Endesa did not hold any treasury shares at 31 December 2005 or at 31 December 2004.

9. Proposed distribution of profit

The 2005 profit of the Group's Parent, Endesa, S.A., amounted to EUR 2,977 million which, together with its retained earnings amounting to EUR 213 million, give a total of EUR 3,190 million.

The Board of Directors will propose to the shareholders at the Annual General Meeting that this amount be used to pay to the holders of shares carrying dividend rights EUR 2.4 gross per share and to appropriate the remainder to retained earnings.

	Millions of Euros
Dividend (maximum amount to be distributed relating to EUR 2.4 / share for all the shares (1,058,752,117)	2,541
Retained earnings	649
TOTAL	**3,190**

ENDESA, S.A.

2005 FINANCIAL STATEMENTS

ENDESA, S.A.

Auditors' Report

Financial Statements for the
Year Ended December 31, 2005
and Management Report

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Stockholders of
Endesa, S.A.:

1. We have audited the financial statements of Endesa, S.A. comprising the balance sheet as of December 31, 2005, and the related statement of income and notes to financial statements for the year then ended. The preparation of these financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements referred to above taken as a whole based on our audit work performed in accordance with generally accepted auditing standards, which require examination, by means of selective tests, of the documentation supporting the financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. As required by Spanish corporate law, for comparison purposes the directors present, in addition to the 2005 figures for each item in the balance sheet and statements of income and of changes in financial position, the figures for 2004. Our opinion refers only to the 2005 financial statements. Our auditors' report dated March 9, 2005, on the 2004 financial statements contained an unqualified opinion.

3. In accordance with current Spanish corporate legislation, the financial statements for 2005 referred to above are presented without taking into account accounting consolidation principles. Therefore, the financial statements referred to above of Endesa, S.A., which is basically a holding company, do not reflect the financial and equity variations that result from applying consolidation principles to the holdings in the related companies or to the transactions carried on by them, some of which are performed in accordance with the Group's overall strategy. The consolidated financial statements for 2005 are the first that the Group has prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRSs), on which we issued our auditors' report on January 20, 2006, in which we expressed an opinion qualified for the lack of uniformity in the application of accounting principles between years, since the Company applied the exception provided for in IFRS 1, which permits the application of International Accounting Standards 32 and 39 in relation to financial instruments from 1 January 2005 onwards, without requiring that the comparative figures for 2004 be adapted. The balances of the main consolidated captions applying International Financial Reporting Standards are detailed in Note 7-b to the financial statements.

4. In our opinion, the financial statements for 2005 referred to above present, in all material respects, a true and fair view of the net worth and financial position of Endesa, S.A. as of December 31, 2005, and of the results of its operations and of the funds obtained and applied by it in the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with generally accepted accounting principles and standards applied on a basis consistent with that of the preceding year.

5. The accompanying management report for 2005 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the management report is consistent with that contained in the financial statements for 2005. Our work as auditors was confined to checking the management report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE
Registered in ROAC under no. S0692

Eduardo Sanz Hernández
January 20, 2006

BALANCE SHEETS

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A. **Millions**
Balance Sheets as of December 31, 2005 and 2004 **of Euros**

	2005	2004
ASSETS		
FIXED AND OTHER NONCURRENT ASSETS	**23.922**	**21.485**
Intangible assets (Note 5)	**32**	**26**
Concessions, patents, licenses, trademarks and other	12	12
Computer software	49	33
Accumulated amortization	(29)	(19)
Utility plant (Note 6)	**11**	**11**
Land and structures	4	5
Other fixtures, machinery, tools, furniture and other tangible fixed assets	16	14
Other depreciation	(9)	(8)
Long-term investments (Note 7)	**23.879**	**21.448**
Investments in Group companies	22.046	22.040
Loans to Group companies (Note 15)	75	3
Investments in associated companies	9	9
Long-term investment securities	3	3
Other loans	1.623	37
Long-term deposits and guarantees given	110	116
Allowances	(369)	(1.532)
Deferred tax assets (Note 13)	382	772
DEFERRED CHARGES	**23**	**610**
Deferred interest and debt arrangement expenses	23	28
Deferred expenses due to the transition to competition (Note 9-b)	0	582
CURRENT ASSETS	**2.357**	**766**
Accounts receivable	**475**	**200**
Receivable from Group companies (Note 15)	112	23
Sundry accounts receivable	33	27
Tax receivables	330	150
Short-term investments (Note 7)	**1.840**	**504**
Loans to Group companies (Note 15)	1.838	503
Loans to associated companies (Note 15)	1	1
Short-term investment securities	1	1
Allowances	0	(1)
Cash	**41**	**55**
Accrual accounts	**1**	**7**
TOTAL ASSETS	**26.302**	**22.861**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as of December 31, 2005.

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A.
Balance Sheets as of December 31, 2005 and 2004

Millions of Euros

	2005	2004
STOCKHOLDERS' EQUITY AND LIABILITIES		
STOCKHOLDERS' EQUITY (Note 10)	**10.537**	**8.376**
Capital stock	**1.271**	**1.271**
Additional paid-in capital	**1.376**	**1.376**
Revaluation reserves	**1.714**	**1.714**
Reserves	**3.309**	**3.309**
Legal reserve	285	285
Other reserves	3.022	3.022
Differences due to the adjustment of capital stock to euros	2	2
Prior years' income	**213**	**153**
Retained earnings	213	153
Income for the year	**2.977**	**841**
Interim dividend paid during the year	**(323)**	**(288)**
DEFERRED REVENUES	**4**	**15**
Exchange gains	4	15
PROVISIONS FOR CONTINGENCIES AND EXPENSES (Note 11)	**253**	**396**
Other provisions	253	396
LONG-TERM DEBT	**11.420**	**11.231**
Debentures and other marketable debt securities (Note 12-a)	**500**	**542**
Other nonconvertible debentures	500	500
Other marketable debt securities	0	42
Payable to credit institutions (Note 12-b)	**2.773**	**2.338**
Payable to Group and associated companies (Notes 12-c and 15)	**8.119**	**8.323**
Payable to Group companies	8.119	8.323
Other payables	**28**	**28**
Deferred tax liabilities (Note 13)	28	28
CURRENT LIABILITIES	**4.088**	**2.843**
Debentures and other marketable debt securities (Note 12-a)	**188**	**464**
Other marketable debt securities	170	446
Interest on debentures and other securities	18	18
Payable to credit institutions (Note 12-b)	**699**	**99**
Loans and other accounts payable	667	77
Interest payable	32	22
Short-term payables to Group and associated companies (Note 12-c and 15)	**2.284**	**1.874**
Payable to Group companies	2.284	1.874
Trade accounts payable	**115**	**38**
Accounts payable for purchases and services	115	38
Other nontrade payables	**802**	**365**
Taxes payable	9	29
Other payables	782	327
Compensation payable	11	9
Operating allowances	**0**	**3**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**26.302**	**22.861**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as of December 31, 2005.

STATEMENTS OF INCOME

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

ENDESA, S.A.
Statements of Income for the years ended December 31, 2005 and 2004

Millions of Euros

EXPENSES	2005	2004	REVENUES	2005	2004
Procurements	**0**	**10**	**Net revenues (Note 16)**	**271**	**231**
Power used	0	10	Sales	0	10
Personnel expenses	**95**	**82**	Services (Note 15)	271	155
Wages, salaries and similar expenses	66	56	Remuneration for the transition to competition	0	66
Employee welfare expenses	29	26	Technological CTCs	0	66
Depreciation and amortization expense (Notes 5, 6 and 9-b)	**34**	**30**	**Other operating revenues**	**10**	**9**
Other operating expenses	**200**	**99**	Non-core and other current operating revenues	10	9
Outside services	166	83			
Taxes other than income tax	1	(3)			
Other current operating expenses	33	19			
OPERATING INCOME	**(48)**	**19**	**OPERATING LOSS**	**0**	**0**
Financial and similar expenses	**664**	**605**	**Revenues from equity investments**	**2.988**	**929**
On debts to Group companies (Note 15)	382	354	Group companies (Notes 7 and 15)	2.985	927
On debts to third parties and similar expenses	282	251	Associated companies (Notes 7 and 15)	3	2
Variation in investment valuation allowances (Note 7)	**1**	**2**	**Revenues from other marketable securities**		
Exchange losses (Note 4-k)	**3**	**1**	**and noncurrent loans**	**2**	**2**
			Associated companies (Note 15)	1	1
			Non-Group companies	1	1
			Other interest and similar revenues	**18**	**22**
			Group companies (Note 15)	8	3
			Other interest	10	19
			Exchange gains	**8**	**12**
FINANCIAL INCOME	**2.348**	**357**	**FINANCIAL LOSS**	**0**	**0**
INCOME FROM ORDINARY ACTIVITIES	**2.300**	**376**	**LOSS ON ORDINARY ACTIVITIES**	**0**	**0**
Variation in allowances for intangible assets, utility plant			**Gains on fixed asset disposals (Note 16)**	**2**	**0**
and control portfolio (Notes 7 and 16)	**(1.120)**	**(420)**	**Gains on transactions involving treasury stock**		
Nonoperating expenses (Notes 9-b and 16)	**611**	**72**	**and own debentures**	**0**	**16**
Prior years' expenses and losses (Note 16)	**1**	**2**	**Nonoperating revenues (Notes 11 and 16)**	**215**	**42**
			Prior years' revenues and income	**0**	**3**
NONOPERATING INCOME	**725**	**407**	**NONOPERATING LOSS**	**0**	**0**
INCOME BEFORE TAXES	**3.025**	**783**	**LOSS BEFORE TAXES**	**0**	**0**
Corporate income tax (Note 13)	48	(58)			
INCOME FOR THE YEAR	**2.977**	**841**	**LOSS FOR THE YEAR**	**0**	**0**

The accompanying Notes 1 to 21 are an integral part of the 2005 statement of income.

NOTES TO FINANCIAL STATEMENTS

Translation of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

1.- COMPANY DESCRIPTION

Endesa, S.A. ("ENDESA") was incorporated on November 18, 1944, and its registered office and administrative headquarters are located in Madrid, at calle Ribera del Loira, no. 60. Its 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 its corporate purpose, and the management of the corporate Group comprising investments in other companies. The Company may carry on the business activities composing its corporate purpose in Spain and abroad directly or through its holdings in other companies.

As a result of the corporate restructuring carried out in recent years and the unbundling of electricity activities pursuant to Electricity Industry Law 54/1997, ENDESA's business activities focus mainly on the management of and rendering of services to its corporate Group, comprising the holdings listed in these financial statements. Accordingly, since it does not directly carry on electricity activities or activities which affect the environment, the information relating to the unbundling of activities and to environmental activities included in the consolidated financial statements is not presented in these financial statements.

2.- BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

TRUE AND FAIR VIEW

The financial statements are presented in accordance with the revised Spanish Corporations Law, the Spanish National Chart of Accounts approved by Royal Decree 1643/1990 and Royal Decree 437/1998 approving the regulations adapting the Spanish National Chart of Accounts for electric utilities ("the Electricity Industry Chart of Accounts"). The financial statements give a true and fair view of the Company's net worth and financial position, of the results of its operations and of the funds obtained and applied by it, and were prepared from the Company's accounting records as of December 31, 2005.

The financial statements for 2005, which were prepared by the Board of Directors, will be submitted for approval by the Stockholders' Meeting, and it is considered that they will be approved without any changes. The financial statements for 2004 were approved by the Stockholders' Meeting on May 27, 2005.

3.- DISTRIBUTION OF INCOME

The proposed distribution of 2005 income that the Company's Board of Directors will submit for approval by the Stockholders' Meeting is to pay to the stockholders holding shares carrying dividend rights €2.40 gross per share, and to allocate the remainder to retained earnings.

Distributable Income	**Millions of Euros**
Income for the year	2,977
Retained earnings	213
Total	3,190

Distribution	**Millions of Euros**
Dividends (1)	2,541
Retained earnings	649
Total	3,190

(1) Maximum amount to be distributed on the basis of payment of €2.40 per share for all the shares (1,058,752,117 shares).

On November 15, 2005, the Board of Directors of ENDESA approved an interim dividend of €0.305 per share payable out of 2005 income.

As required by Article 216 of the revised Corporations Law, the accounting statement evidencing the existence of sufficient liquidity for the distribution of the interim dividend is as follows:

Accounting liquidity statement for the period from October 1, 2005 to September 30, 2006

	Millions of Euros
Beginning available balance at October 1, 2005:	
Cash on hand and at banks	29
Unused credit facilities	3,728
Increases in cash:	
Due to ordinary transactions	1,140
Due to financial transactions	2,216
Decrease in cash:	
Due to ordinary transactions	329
Due to financial transactions	534
Ending available balance at September 30, 2006	6,250
Proposed interim dividend out of 2006 income (€0.305 per share)	323

4.- VALUATION STANDARDS

The main valuation methods applied by the Company in preparing its financial statements for 2005, in accordance with the Spanish National Chart of Accounts and the Electricity Industry Chart of Accounts, were as follows:

a) INTANGIBLE ASSETS

Patents, trademarks and computer software are recorded at cost and amortized over a maximum period of five years.

b) UTILITY PLANT

Utility plant is carried at cost and is depreciated by the straight-line method at annual rates based on the following years of estimated useful life:

	Years of Estimated Useful Life
Structures	50
Machinery	10
Tools	5
Furniture	10
Other tangible fixed assets	8-14

c) MARKETABLE SECURITIES AND OTHER INVESTMENTS

Investments in marketable short- and long-term fixed-income and equity securities are recorded at the lower of cost or market. The market value is taken to be, for officially listed securities of companies other than Group and associated companies, the lower of average market price in the last quarter and year-end market price and, for other securities, the underlying book value, adjusted by the amount of the unrealized gains disclosed at the time of acquisition and still existing at the date of subsequent valuation (see Note 7).

Unrealized losses (market value, as defined above, lower than cost at year-end) are recorded under the "Long-Term Investments - Allowances" caption".

The financial statements as of December 31, 2005, do not reflect the effects that would have arisen had consolidation principles been applied in accordance with Spanish standards. However, Note 7-b describes the effect of applying consolidation principles under International Financial Reporting Standards.

d) NONTRADE LOANS

Nontrade loans are recorded at the amount delivered and those maturing in under 12 months from year-end are classified as current assets and those maturing at over 12 months as noncurrent assets. Interest revenues are recorded in the year in which they are earned.

e) TREASURY STOCK

If there is no plan to retire treasury stock, it is valued at the lower of acquisition cost or underlying book value and, where appropriate, a restricted reserve is recorded in this connection (see Note 8).

If the market value of the shares of treasury stock is lower than the acquisition cost, which is taken to be the lower of the market price at year-end or the average market price in the last quarter, the provision required to cover this difference is recorded with a charge to the “Nonoperating Income” caption in the statement of income.

If in this connection, the underlying book value of these shares were even lower than their market value, a provision would be recorded to cover this difference with a charge to unrestricted reserves.

f) REMUNERATION FOR THE TRANSITION TO COMPETITION

Regulation

The 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.

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, and foreseeably recoverable through the remuneration for the transition to competition, 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 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.

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 by subsequent legislation.

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 during 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 Spanish 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 Spanish coal. This amount includes €296 million relating to the incentive for using integrated coal gasification combined cycle technology.

2) The maximum amount of the technological costs of transition to competition (CTCs), the present value of which as of December 31, 1997, amounted to €8,663 million.

Recovery procedure and 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.

Royal Decree-Law 2/2001 eliminated the assignment of 4.5% of the electricity rate, returning to a situation in which all the technological CTCs would be treated as a maximum amount to be recovered through the previously established system of differences with a time limit extended through December 31, 2010.

If the average annual price of the electricity sold in the wholesale production market (OMEL) by the ENDESA Group companies is higher than €0.03606 per kWh, this excess will be deducted from the value of the remuneration for transition to competition not yet received by ENDESA, S.A.

The sale of installations will include the assignment of the CTC collection right. The gains obtained on the sale of installations will be deducted by the vendor company from the outstanding balances for the CTC collection rights.

Accounting treatment

The accounting treatment of the remuneration for transition to competition is fundamentally regulated by Royal Decree 437/1998 approving the regulations adapting the Electricity Industry Chart of Accounts. As established therein, the remuneration will cover, in the following order, the items described below:

1) The amount by which the book value of the items of electricity plant exceeds their 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 are amortized on the basis of the percentage which the remuneration for the transition to competition collected in the year represents of the total projected CTCs, applying, as a minimum, the percentage envisaged in the recovery scheduled.

If in a given year the amount recognized as remuneration for the transition to competition is zero, any asset that appears in the balance sheet as recoverable through this remuneration will be allocated in full to income for that year, unless there are grounds to reasonably assume that future revenues will be obtained in this connection (see Note 9).

CTC revenues have been recorded since 2001 on the basis of the collection right generated each year, based on the aforementioned system of differences.

g) PENSION COMMITMENTS AND SIMILAR OBLIGATIONS

ENDESA employment-based pension plan

The ENDESA employment-based pension plan was included in the pension plan for ENDESA Group employees effective January 1, 2005.

ENDESA is one of the plan's promoters. The participants, of which Endesa is the promoter, are divided into two large groups, the first of which is governed by the defined benefit scheme for retirement and the second of which is governed by the defined contribution scheme for retirement.

The defined benefit groups are closed, in the sense that no new members are admitted. The most representative example of this type of group is that formed by the electricity employees of the former ENDESA, which has the following characteristics:

> 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, the monitoring required for this system does not differ significantly from that required under the defined contribution scheme.

Current legislation establishes the obligation to externalize the accrued pension commitments, and ENDESA has complied with this legislation, since all its pension obligations had been externalized as of December 31, 2005, and, therefore, no provision was recorded in this connection.

Since their externalization, the annual contributions to the related pension plans are made directly with a charge to the "Personnel Expenses" caption in the statement of income.

h) 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 11).

These provisions include the amounts relating to the estimated cost of the labor force reduction plans approved, which were recorded with a charge to the "Deferred Charges Due to the Transition to Competition" caption.

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.

As of December 31, 2005, two types of plans were 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; an extension through 2007 has been approved in this connection for organizational reasons.

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 there is an agreement between employee and the company concerned.

The total number of employees considered in this connection is 202, of whom 69 are currently in a situation of pre-retirement.

The economic conditions applicable to the employees who avail 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 which is based on his last annual salary payment and is updatable, generally 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.

The assumptions used for the actuarial calculation of the obligations arising under these labor force reduction plans are the GRM/F-95 mortality tables and an assumed interest rate of 3.588% (see Note 11).

i) CLASSIFICATION OF DEBT

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.

j) CORPORATE INCOME TAX

The corporate income tax 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, excluding tax withholdings and prepayments. The tax effect of timing differences between the income per books and the taxable income is recorded under the “Deferred Tax Assets” or “Deferred Tax Liabilities” captions, as appropriate.

ENDESA files consolidated corporate income tax returns as the head of a consolidated tax group made up of the companies that meet the related legal requirements.

k) FOREIGN CURRENCY TRANSACTIONS

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 balance sheet at the exchange rates ruling as of that date, except in the case of transactions for which the exchange rates at maturity have been hedged, which are recorded at the hedged exchange rates.

Positive and negative exchange differences arising on each account payable and receivable are classified by due date and currency, and for this purpose currencies which, although different, are officially convertible in Spain are grouped together.

- The negative differences in each group of currencies and the positive differences which have been realized or which offset negative differences arising in the current year or in prior years are allocated to income.

- The unrealized positive differences in each group of currencies are included under the “Deferred Revenues” caption on the liability side of the balance sheet until they are realized.

l) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized on an accrual basis.

In accordance with the accounting principle of prudence, the Company only records realized income at year-end, whereas foreseeable contingencies and losses, including possible losses, are recorded as soon as they become known.

m) FINANCIAL DERIVATIVES AND HEDGING TRANSACTIONS

The financial derivatives held by ENDESA relate basically to interest rate and exchange rate hedging transactions since they are intended to eliminate or significantly reduce such risks in the transactions carried out by various Group companies.

The premiums paid for these derivatives are deferred and allocated to income each year by the matching method.

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

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

5.- INTANGIBLE ASSETS

The variations in 2005 in this caption were as follows:

	Millions of Euros		
	Balance at 12/31/04	Investments and Provisions	Balance at 12/31/05
INTANGIBLE ASSETS			
Concessions, patents, licenses, trademarks and other	**12**		**12**
Computer software	**33**	16	**49**
Total	**45**	**16**	**61**
ACCUMULATED AMORTIZATION			
Concessions, patents, licenses, trademarks and other	**(8)**	(3)	**(11)**
Computer software	**(11)**	(7)	**(18)**
Total	**(19)**	**(10)**	**(29)**

6.- UTILITY PLANT

The variations in 2005 in the "Utility Plant" caption were as follows:

	Millions of Euros			
	Balance at 12/31/04	Investments and Provisions	Retirements or Reductions	Balance at 12/31/05
UTILITY PLANT				
Land and structures	5		(1)	4
Other fixtures, machinery, tools, furniture and other tangible fixed assets	14	2		16
Total	**19**	**2**	**(1)**	**20**
ACCUMULATED DEPRECIATION				
Other depreciation	(8)	(1)		(9)
Total	**(8)**	**(1)**	**0**	**(9)**

7.- LONG- AND SHORT-TERM INVESTMENTS

The variations in 2005 in the “Long-Term Investments” accounts were as follows:

	Millions of Euros				
	Balance at 12/31/04	**Additions and Provisions**	**Retirements or Reductions**	**Transfers and Amounts Used**	**Balance at 12/31/05**
Investments in Group companies	22,040	204	(198)		22,046
Loans to Group companies (Note 15)	3	75	(3)		75
Investments in associated companies	9				9
Long-term investment securities	3				3
Other loans	37	1,586			1,623
Long- term deposits and guarantees given	116	7	(13)		110
Allowances (Note 16)	(1,532)	(41)	1,161	43	(369)
Deferred tax assets (Note 13)	772	84	(456)	(18)	382
Total	**21,448**	**1,915**	**491**	**25**	**23,879**

The variations in 2005 in the “Short-Term Investments” accounts were as follows:

	Millions of Euros		
	Balance at 12/31/04	**Variation**	**Balance at 12/31/05**
Loans to Group companies (Note 15)	503	1,335	1,838
Loans to associated companies (Note 15)	1		1
Short-term investment securities	1		1
Allowances	(1)	1	0
Total	**504**	**1,336**	**1,840**

Following is the detail of the investments in Group and associated companies as of December 31, 2005, together with the data on these companies at that date. The net worth data on the companies relates to information on the individual companies, whereas the net cost per books was calculated and recorded based on consolidated data for the companies which head a group of subsidiaries:

Group companies:

					Millions of Euros			
Company Location	Line of Business	% of Direct Owner-ship	Capital	Reserves and Interim Dividend	Income (Loss) 2005	Income (Loss) Non-operat-ing	Net Cost per Books	Dividends Received
ENDESA ENERGÍA, S.A. – Madrid	Marketing of energy products of all types	100.00	13	4	(72)	(8)	-	-
ENDESA GENERACIÓN, S.A. – Seville	Generation of electricity	100.00	1,945	1,162	906	9	3,891	1,288
ENDESA RED, S.A. – Barcelona	Distribution of electricity	100.00	730	666	181	(6)	1,460	347
INTERNACIONAL ENDESA, BV - Netherlands	Management of international financing	100.00	15	5	4		18	7
ENDESA SERVICIOS, S.L. – Madrid	Services	100.00	90	32	(2)	(19)	117	1
ENDESA INTERNACIONAL, S.A. – Madrid	The Endesa Group's international business	100.00	1,500	568	126	199	3,547	113
ENDESA PARTICIPADAS, S.A. - Madrid	Portfolio company	100.00	328	(760)	875	1,211	444	720
ENDESA FINANCIACIÓN FILIALES, S.A. – Madrid	Management of subsidiary financing	100.00	4,621	4,381	244		9,242	335
TENEGUÍA GESTIÓN FINANCIERA , S.L.U. - Las Palmas de Gran Canaria (2)	Financial management	100.00	20	-	-	-	20	1
TENEGUÍA GESTIÓN FINANCIERA, S.L. SOCIEDAD COMANDITARIA - Las Palmas de Gran Canaria (2)	Financial management	94.45	1,567	5	72	-	1,480	49
ENDESA EUROPA, S.L.U. Madrid	Electricity-related businesses in Europe	100.00	367	949	138	72	1,468	124
TOTAL								2,985

Additionally, ENDESA owns all the shares of Endesa Capital, S.A. Endesa North America Inc., Sociedad de Gestión de Activos de Generación, Sociedad de Gestión de Activos de Distribución, Nueva Bolonia Real Estate, S.L. Nueva Compañía de Distribución Eléctrica 4, Apamea 2000 and Nubia 2000. The book value of these companies is less than €1 million.

Associated companies:

					Millions of Euros			
Company Location	Line of Business	% of Direct Owner-ship	Capital	Reserves and Interim Dividend	Income (Loss) 2005	Income (Loss) Non-operat-ing	Net Cost per Books	Dividends Received
RED ELÉCTRICA DE ESPAÑA, S.A. (REE) – Madrid (1)	Transmission of electricity	3.00	271	573	59	(36)	9	3
INTERBOLSA, S.A. – Madrid	Financial intermediation	20.00	0.06	N/A	N/A	N/A	0.003	-
PROYECTO ALMERÍA MEDITERRÁNEO - (Almería)	Diversification	45.00	N/A	N/A	N/A	N/A	0.2	-
TOTAL								3

(1) Data as of June 30, 2005
(2) Data as of November 30, 2005
(N/A) Not available

a) MAIN VARIATIONS IN 2005

Investments in Group companies

- **Partial spin-off (see Exhibit)**

  In July 2005 Endesa Participadas, S.A. was partially spun off through the unbundling of its investments in Endesa Cogeneración y Renovables, S.A., which was contributed to Endesa Generación, S.A., and in Endesa Ingeniería, S.L., which was contributed to Endesa Red, S.A. This transaction reduced the capital stock of Endesa Participadas, S.A. by €127 million.

  Endesa Generación, S.A. carried out a capital increase of €63.5 million with additional paid-in capital of €63.5 million and Endesa Red carried out a capital increase with additional paid-in capital totaling €3 thousand. These two increases were subscribed by ENDESA.

- **Nonmonetary contributions (see exhibit)**

  In 2005 the investee Endesa Net Factory, S.L. changed its business name to Endesa Network Factory, S.L. In July 2005, Endesa Network Factory, S.L. carried out a capital increase of €11 million with additional paid-in capital of €25 million, which was fully subscribed by ENDESA through the contribution of credit rights arising from the participating loan arranged between the two companies.

  In November 2005 ENDESA contributed to Endesa Servicios, S.L. the investment in Endesa Network Factory. Since this contribution was valued at €27 million, Endesa Servicios, S.L. increased its capital by €5 million with additional paid-in capital of €22 million, fully subscribed by ENDESA.

- **Other transactions**

  In July Endesa Network Factory, S.L. carried out a further capital increase in cash amounting to €4 million, with additional paid-in capital of €9 million, subscribed and paid by ENDESA.

Loans to Group companies

The balance as of December 31, 2005, of the short- and long-term loans to Group companies was €1,913 million, of which €720 million related to accounts receivable from Group companies as a result of filing consolidated corporate income tax returns, €1,114 million to interim dividends from subsidiaries, declared in 2005 and payable in February 2006, and €75 million to a participating loan granted in December 2005 to Endesa Energía, S.A.

Other loans

In 2005 since a shortfall had been generated in the revenues from regulated activities in the Spanish electricity system, these revenues were insufficient to cover the regulated costs of this system.

Pursuant to Royal Decree Law 5/2005, which introduced four new paragraphs in Section 1.9 of Schedule 1 of Royal Decree 2017/1997, the shortfall in revenues from regulated activities is financed by certain companies, including ENDESA, which is required to finance 44.16% of this deficit, amounting to €1,581 million.

Under Article 1 of Royal Decree 1556/2005 establishing the electricity rate for 2006, on July 1, 2006, after the necessary measures have been taken and the appropriate reports have been prepared, the government, by Royal Decree, will approve or modify the average or reference rate, and will review the costs derived from the activities required to supply electricity, the ongoing system costs and the diversification and security of supply costs, including the reimbursement, out of the proceeds from sales under the rate system in subsequent years, of the negative balances resulting from the settlements made, based on the methodology in force, by the Spanish National Energy Commission, relating to the rate for 2005, to each of the electric utilities included in section I.9 of Schedule I of Royal Decree 2017/1997 in respect of the amounts actually contributed by each utility, including the related accrued interest.

Through December 31, 2005, ENDESA had contributed €1,011 million to finance the shortfall in revenues from regulated activities in 2005, and has yet to contribute an estimated €570 million.

The estimated €1,581 million that ENDESA will ultimately have to finance of the shortfall in regulated revenues for 2005 was recorded under the “Other Loans” caption on the asset side of the balance sheet, since its recovery is guaranteed under Royal Decree 1556/2005.

Deposits and guarantees given

The balance of this caption as of December 31, 2005, includes €110 million relating to the deposit given to secure the payment of the future services of the employees included in the defined benefit subplan of the ENDESA employment-based pension plan (see Note 4-g).

Deferred tax assets

The balance at December 31, 2005, relates to deferred tax assets amounting to €382 million. The variations in 2005 are detailed in Note 13.

b) EFFECT OF NOT CONSOLIDATING

ENDESA’s financial statements are presented in compliance with current Spanish corporate law; however, ENDESA and the Group companies are managed on a consolidated basis. Consequently, the financial statements of ENDESA, which acts basically as a holding company, do not reflect the financial and net-worth variations that result from applying consolidation methods to its holdings or the transactions carried out by them, some of which are in line with the Group’s global strategy. These variations are reflected in the 2005 consolidated financial statements of the Group.

The main aggregates of ENDESA’s 2005 consolidated financial statements, prepared in accordance with Final Provision Eleven of Law 62/2003 applying the International Financial Reporting Standards approved by European Commission Regulations, are as follows:

	Millions of Euros	
	2005	
Total Assets		55,365
Net worth:		16,327
- Of the Parent Company	11,590	
- Of the minority shareholders	4,737	
Revenues		18,229
Income for the year:		3,757
- Of the Parent Company	3,182	
- Of the minority shareholders	575	

8.- TREASURY STOCK

As authorized by the Stockholders' Meetings on April 2, 2004 and May 27, 2005, to provide market liquidity to ENDESA shares at specific times, in 2005 ENDESA carried out various treasury stock purchase and sale transactions.

The detail of the variations in 2005 is as follows:

	Millions of Euros		
	Gross	Allowance	Net
Balance at 12/31/04	0	0	0
Acquisitions	4		4
Sales at cost	(4)		(4)
Balance at 12/31/05	0	0	0

As of December 31, 2005, the Company did not hold any shares of treasury stock.

9.- DEFERRED CHARGES DUE TO THE TRANSITION TO COMPETITION

a) REMUNERATION CORRESPONDING TO ENDESA

As a result of the merger with its investees in 1999, ENDESA acquired the collection rights relating to the remuneration for the transition to competition of these companies, effective January 1, 1999.

The variations in 2005 in the maximum recognized balance of the remuneration for transition to competition not yet collected corresponding to the ENDESA Group were as follows:

	Millions of Euros
Outstanding balance at 12/31/04	**2,535**
Resettlements relating to prior years	13
2005 interest	56
Amount exceeding €0.03606 per kWh in average selling price for 2005 (*)	(1,776)
Outstanding balance at 12/31/05	**828**

(*) The amounts recovered as a result of electricity sales in the Wholesale Production Market (OMEL) in excess of €0.03606 per kWh are computed at Group level and are therefore not ENDESA revenues.

Of the amount not yet collected as of December 31, 2005, €175 million relate to Endesa Generación, S.A. and the remainder to ENDESA.

Additionally, in the contribution of a line of business in 2000 ENDESA undertook to pay Endesa Generación, S.A., up to a maximum amount of €1,096 million (value as of July 31, 1999), of the remuneration for the transition to competition received by it if Endesa Generación, S.A. did not recover through the market the full cost of the utility plant contributed to it, and only for the unrecovered amount. Since in 2005 there were no CTC revenues, no contribution was made in this connection.

Additional Provision Two of Royal Decree-Law 5/2005 established that, exceptionally for 2004, the technological CTCs of that year would be settled in the annual settlement made subsequent to December 31, 2005, and, as a result, the collection of the outstanding balance for 2004 was frozen.

In view of the prices established in the Wholesale Production Market (OMEL) for the coming years, the Company's directors anticipate that ENDESA's subsidiaries will sell electricity in this market over the next few years at prices higher than €0.03606 per kWh, which will gradually reduce ENDESA's right to receive remuneration for the transition to competition until it is fully exhausted.

b) AMOUNTS TO BE RECOVERED THROUGH THE REMUNERATION FOR THE TRANSITION TO COMPETITION

Deferred charges due to the transition to competition

Pursuant to the Sole Transitional Provision of Royal Decree 437/1998, since no revenues were received in 2005 from the remuneration for the transition to competition, and it cannot be reasonably assumed, based on current circumstances, that ENDESA will obtain future revenues of this type directly. In 2005 the Company amortized the full amount of the deferred charges due to the transition to competition which, as of December 31, 2004, amounted to €582 million, and allocated €23 million to the “Period Depreciation and Amortization” caption and €559 million to the “Nonoperating Expenses” caption in the accompanying statement of income.

The evolution of the deferred charges due to the transition to competition was as follows:

	Deferred Charges Due to the Transition to Competition				
Year	Beginning Balance	Additional Increases	Allocation to Income	Charge to Reserves	Ending Balance
1998	473	343	(28)		788
1999	788	1,352	(144)		1,996
2000	1,996	(34)	(177)	(926)	859
2001	859		(199)		660
2002	660		(48)		612
2003	612		(8)		604
2004	604		(22)		582
2005	582		(582)		
2006					
2007					
2008					
2009					
2010					
Total	**473**	**1,661**	**(1,208)**	**(926)**	**0**

10.- STOCKHOLDERS' EQUITY

The variations in equity accounts in 2005 were as follows:

Millions of Euros							
		Distribution of Income					
	Balance at 12/31/04	Reserves	Dividends	Adjust-ments and Transfers	Interim Dividend	Income for the Year	Balance at 12/31/05
Capital stock	1,271						1,271
Additional paid-in capital	1,376						1,376
Legal reserve	285						285
Revaluation reserve	1,714						1,714
Mining depletion reserve Law 6/1977	39			1			40
Reserve for accelerated depreciation Royal Decree Law 2/1985	1						1
Merger reserve	2,048						2,048
Voluntary reserve	807						807
Reserve for retired capital	103			(1)			102
Canary Islands investment reserve	24						24
Differences due to the adjustment of capital stock to euros	2						2
Retained earnings	153	213	(153)				213
Income for the year	841	(213)	(628)			2,977	2,977
Interim dividend	(288)	-	288		(323)	-	(323)
TOTAL STOCKHOLDERS' EQUITY	**8,376**	**-**	**(493)**	**-**	**(323)**	**2,977**	**10,537**

a) CAPITAL STOCK

As of December 31, 2005, the capital stock of ENDESA consisted of 1,058,752,117 fully subscribed and paid bearer shares of €1.20 par value each. The foregoing number includes 22,676,060 shares listed in the form of American Depositary Receipts (ADRs) on the New York Stock Exchange. Also, ENDESA's shares are traded on the Santiago de Chile "Off-Shore" Stock Exchange.

On September 5, 2005, Gas Natural SDG, S.A. requested from the Spanish National Securities Market Commission ("the CNMV") authorisation to launch a tender offer on all the shares of ENDESA. At the date of preparation of these financial statements, this tender offer was subject to the authorisation of the related authorities.

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.

As of December 31, 2005, ENDESA's legal reserve had exceeded the 20% minimum stipulated by the Corporations Law.

d) REVALUATION RESERVES

On December 31, 1996, the Company revalued its utility plant pursuant to Royal Decree-Law 7/1996, giving rise to a surplus of €1,776 million. After deduction of the 3% tax, the net balance of €1,722 million was credited to the “Revaluation Reserve Royal Decree-Law 7/1996” account.

The aforementioned balance can be used, free of tax, to offset recorded losses (both prior years’ accumulated losses and current year losses) or losses which might arise in the future, and to increase capital stock. From January 1, 2007 (ten years from the date of the balance sheet reflecting the revaluation), 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.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

Pursuant to Royal Decree-Law 7/1996, through December 31, 2005, €5 million of this account had been used to offset losses on sales of revalued assets made prior to the review by the tax inspection authorities of the asset revaluation. Also, as a result of the aforementioned tax review, the balance of the revaluation reserve was reduced by €3 million in 1999.

The revalued assets were contributed to the related companies on January 1, 2000, as a result of the corporate restructuring process carried out by the ENDESA Group.

e) MINING DEPLETION RESERVE

The use of this reserve is restricted by Legislative Royal Decree 4/2004 approving the revised Corporate Income Tax Law, and if it is used in any way not permitted thereby, the account balance would be subject to the applicable taxes.

11.- PROVISIONS FOR CONTINGENCIES AND EXPENSES

The balance of the "Provisions for Contingencies and Expenses" caption as of December 31, 2005, relates to the following items:

– €113 million relating to the coverage of the future obligations arising from the restructuring plans (see Note 4-h).

– Costs relating to liability arising from third-party claims, litigation and other contingencies totaling €140 million (see Note 13).

The variations in this caption in 2005 were as follows:

	Millions of Euros	
Beginning balance		396
Provisions:		58
- Personnel expenses	1	
- Financial expenses	10	
- Nonoperating expenses (Note 16)	47	
Amount used:		(201)
- Payments	(10)	
- Nonoperating revenues (Note 16)	(191)	
Ending balance		**253**

Of the amount used, €155 million relate to the favorable decisions or judgments decisions handed down in 2005 with respect to certain lawsuits for which provisions had been recorded at 2004 year-end, €20 million to the reversal of provisions for third-party liability relating to investments in subsidiaries and €16 million to the adjustment of the provisions for labor force reduction plans.

12.- ACCOUNTS PAYABLE

a) DEBENTURES AND OTHER MARKETABLE DEBT SECURITIES

The detail of outstanding debentures and promissory notes as of December 31, 2005, is as follows:

		Millions of Euros			
		Maturing in:			
	Balance at 12/31/05	2006	2007	2008	2009
Debentures and other marketable debt securities	500				500
Accrued interest payable	18	18			
Promissory notes	170	170			
Total	**688**	**188**	**0**	**0**	**500**

In 2005 no debentures were redeemed. On the other hand, short-term promissory notes amounting to €318 million were redeemed.

The average interest rate in the year was 3% for the promissory notes and 4.32% for the debentures and bonds.

b) PAYABLE TO CREDIT INSTITUTIONS

The breakdown, by due date, of the balance of the Company's loans and credits payable to credit institutions as of December 31, 2005, is as follows:

		Millions of Euros					
		Due in:					
	Balance at 12/31/05	2006	2007	2008	2009	2010	Subsequent Years
Payable to credit institutions	3,472	699	282	121	165	1,854	351

The detail, by currency, of the balances of the Company's loans and credits payable to credit institutions as of December 31, 2005, is as follows:

	Millions of Euros
	Balance at 12/31/05
In euros	3,396
In foreign currencies:	
U.S. dollars	44
Accrued interest payable	32
Total	**3,472**

In 2005 the Company repaid long- and short-term debts to Spanish and foreign credit institutions amounting to €197 million and drew down €1,214 million. The interest accrued in 2005 amounted to €10 million. The effect of the foreign currency valuation adjustment increased the debt by €8 million. The average interest rates in 2005 were 3.63% on the credits and loans in euros and 2.61% on debt in foreign currencies.

The contracts governing a portion of the Company's financial debt contain certain clauses, which are habitual in contracts of this nature, that establish the possibility for the lender of demanding that the repayment of the financing be brought forward if certain financial ratios are not met. The directors consider that the existence of these clauses, the requirements of which were being met as of December 31, 2005, will not modify the classification of the debt between long and short term in the accompanying balance sheet.

c) LONG- AND SHORT-TERM PAYABLES TO GROUP AND ASSOCIATED COMPANIES

The detail of the balances payable to Group companies as of December 31, 2005, is as follows:

	Millions of Euros						
		Due in:					
	Balance at 12/31/05	2006	2007	2008	2009	2010	Subsequent Years
<u>Group companies</u>							
Financial debt							
Euros	9,537	1,431			305	212	7,589
Foreign currency (U.S. dollars)	13		13				
Accrued interest payable	176	176					
Other payables	677	677					
Total	**10,403**	**2,284**	**13**	**0**	**305**	**212**	**7,589**

In relation to the financial debt, in 2005 €57 million were drawn down against the loan from Endesa Capital, S.A. and €165 million against that of Endesa Financiación Filiales, S.A., which bore average interest of 2.43% and 4.20%, respectively, and the short-term debt of €500 million relating to I.E.B.V, which bore average interest of 2.36% in 2005, was repaid.

The “Other Payables” account includes mainly a balance of €676 million payable to Group companies as a result of filing consolidated corporate income tax returns.

d) CREDIT LINES

As of December 31, 2005, ENDESA had unused credit lines totaling €4,266 million.

This amount is higher than the working capital deficiency as of December 31, 2005, and, accordingly, it covers all the Company’s short-term financing needs.

13.- TAX MATTERS

In 2005 ENDESA, S.A. was taxed as the parent company of tax group 42/98 under the consolidated tax regime provided for in Legislative Royal Decree 4/2004 approving the revised Corporate Income Tax Law.

Corporate income tax is calculated on the basis of income per books determined by application of current Spanish accounting principles, which does not necessarily coincide with taxable income.

In the Company’s statement of income for 2005, the amount relating to corporate income tax was recorded as an expense, the detail being as follows:

	Millions of Euros
Tax payable in the year (effective tax charge)	0
Net tax effect of timing differences	32
Net tax effect of consolidation adjustments	340
Elimination of tax assets for prior years’ tax losses	
Prior years’ tax credits taken	30
Unused tax credits	(3)
Distribution of contribution of tax group companies	(352)
Income tax adjustments	1
Corporate income tax for the year	48

The reconciliation of the income per books to the tax base is as follows:

Reconciliation of the income per books to the tax base	Millions of Euros
A) Income before taxes per books	3,025
B) Permanent differences:	
Increases	249
Decreases	(3,083)
C) Timing differences:	
Arising in the year:	
Increases	240
Decreases	
Arising in prior years:	
Increases	
Decreases	(1,302)
D) Tax base before offset of tax losses	(871)
E) Offset of tax losses	
F) Tax base after offset of tax losses	(871)

The increases due to permanent differences in 2005 relate basically to the provisions recorded for labor force reduction plans, third-party liability and contributions to entities regulated by Law 49/2002 on the Tax Regime for Not-for-Profit Entities and on Tax Incentives for Patronage. The decreases arose mainly as a result of the dividends of the consolidated group companies and the reversal of provisions.

The increases due to timing differences relate to provisions recorded for labor force reduction plans, third-party liability and long-term investments. The decreases relate to the provisions for third-party liability, labor force reduction plans and long-term investments used, and to the externalization of pensions and labor force reduction plans.

In 2005 the Company reported tax credits totaling €20 million, of which €17 million related to double taxation tax credits, €2 million to tax credits to encourage the performance of certain activities and €1 million to the reinvestment tax credit provided for in Article 42 of Legislative Royal Decree 4/2004.

All the tax credits earned were recorded regardless of whether or not they were taken in the year, as permitted by the Spanish Accounting and Audit Institute (ICAC) Resolution dated March 15, 2002, since it was considered that they would be recovered in future years.

The variations in tax assets relating to tax losses and tax credits in the year and the balances available for use in future years are as follows:

	Tax Losses	Tax Credits
Balance at December 31, 2004	1	9
2005 tax losses and tax credits		20
Adjustment for the effect of settlement of 2004 corporate income tax		26
Tax losses offset and tax credits taken		(47)
Balance at December 31, 2005	1	8

The detail of the income in relation to which the tax credit provided for in Article 42 of Legislative Royal Decree 4/2004 was taken and the years in which the related amounts were reinvested, which were reinvested by both the Company and the other tax group companies as permitted in Article 75 of Legislative Royal Decree 4/2004, is as follows:

Year in Which the Tax Credit was Taken	Income for Which the Tax Credit was Taken (Millions of Euros)	Year in which the Reinvestment was Made
2001	455	1997 to 2001
2003	1	2003
2005	2	2005

In 2003 the Company sold shares of Red Eléctrica de España, S.A. pursuant to Royal Decree-Law 6/2000 on urgent measures to intensify competition in the goods and services markets, giving rise to a gain of €84 million. Pursuant to Additional Provision Four of Legislative Royal Decree 4/2004 approving the revised Corporate Income Tax Law, the Company did not include in its tax base €44 million relating to the gain for tax purposes. Pursuant to Article 42.3 of Legislative Royal Decree 4/2004, this amount was reinvested by the consolidated tax group in 2003.

The difference between the tax charge allocated to the current year and prior years and the tax already paid or payable for such years is recorded in the "Deferred Tax Assets" and "Deferred Tax Liabilities" accounts in the accompanying balance sheets as of December 31, 2005 and 2004. The variations in these accounts in 2005 were as follows:

	Deferred Tax Assets	Deferred Tax Liabilities
Balance at December 31, 2004	772	28
Additions	84	
Recoveries	(456)	
Adjustment for the effect of the settlement of 2004 corporate income tax	(15)	
Adjustments	(3)	
Balance at December 31, 2005	382	28

Note 7-a to the financial statements describes the corporate restructuring transactions carried out by the Company in 2005, which are subject to the tax regime established in Chapter VIII of Title VII of Legislative Royal Decree 4/2004, and are as follows:

- Special nonmonetary contribution of collection rights to ENDESA NETWORK FACTORY, S.L.
- Special nonmonetary contribution of the investment in ENDESA NETWORK FACTORY, S.L. to ENDESA SERVICIOS, S.A.
- Partial spin-off of its subsidiary ENDESA PARTICIPADAS, S.A. which contributed its investments in ENDESA INGENIERÍA, S.L. and ENDESA COGENERACIÓN Y RENOVABLES, S.A. to the other subsidiaries ENDESA RED, S.A. and ENDESA GENERACIÓN, S.A., respectively.

The Exhibit to these notes to financial statements lists the obligations established by Article 93 of this decree in relation to these transactions,

The Company's notes to 1999, 2000, 2001, 2002, 2003 and 2004 financial statements include the disclosures required by the aforementioned Article 93 in relation to the corporate restructuring transactions carried out in prior years.

The years from 1998 through 2001 are currently being reviewed by the tax inspection authorities for all the taxes applicable to the Company and the Company has the years from 2002 to 2005 open for review by the tax inspection authorities for all the taxes applicable to it. The Company's directors consider that the liabilities that might arise as a result of tax assessments, if any, will not have a material impact on the Company's future income.

The most noteworthy tax litigation is as follows:

Through December 31, 1996, ENDESA and its subsidiaries were taxed for corporate income tax purposes as part of the consolidated tax group whose parent company was 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 thereof. 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 ENDESA Group companies. On June 14, 2001, the Secretary of State for Finance handed down two separate decisions declaring the reports issued to ENDESA and UNELCO 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' claims, and, accordingly, this body has appealed to the Supreme Court.

The financial and tax inspection authorities also issued assessments against ENDESA disallowing its right to take the tax credits generated from 1992 through 1996. These assessments, except for that on which a decision is awaited, were set aside by the Central Economic and Administrative Court.

Lastly, the National Appellate Court set aside the assessment against SEPI for 1996 in which the tax credits were taken. A cassation appeal might be filed with the Supreme Court against the decision of the National Appellate Court.

The maximum amount of the tax credits that could be affected by the outcome of the proceedings described above is €78 million.

As of December 31, 2005, the financial statements included a provision that the directors consider reasonable to cover all the liabilities arising from the tax litigation in progress as of that date.

14.- GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

a) GUARANTEES PROVIDED TO THIRD PARTIES

As of December 31, 2005, ENDESA had provided the following guarantees:

Guarantees of €6,758 million for International Endesa BV to secure the financing obtained by this company, which was subsequently provided to ENDESA and to another Group subsidiary.

A subordinated guarantee for the issuance of perpetual preferred share issue amounting to €1,500 million of its subsidiary Endesa Capital Finance, LLC.

Guarantees of €57 million for Endesa Capital, S.A., to secure the financing obtained by this company, which was subsequently provided to ENDESA and another Group subsidiary.

Guarantee for 40% of two loans granted by the European Investment Bank to TIRME. These guarantees amounted to €35 million at 2005 year-end.

A guarantee for a portion of the financing granted by a group of financial institutions to ELCOGAS. The amount guaranteed is €114 million, which relates to 42%.

A guarantee for an account payable of €38 million, during the Sagunto, S.A. regasification plant investment phase, based on its ownership interest in this company.

A guarantee of U.S.$ 280 million to cover the commercial risks of the financial obligations to third parties of Companhia de Interconexão Energética de Brasil (CIEN).

Guarantees totaling €155 million to third parties for Endesa Trading to cover the risks involved in power purchasing and trading transactions.

Guarantee to cover the commercial risks involved in the U.S.$ 40 million loan granted by Central American Bank for Economic Integration to the project company, Empresa Propietaria de la Red. As of December 31 this loan had not been drawn down.

The renewable energies subsidiary ECYR has a 55% ownership interest in Proyectos Eólicos Valencianos. The company's financing is jointly secured by the shareholders during the construction phase, in proportion to their respective ownership percentages. ENDESA is the guarantor for the portion relating to ECYR and, accordingly, the amount guaranteed by it as of December 31, 2005, was €5 million.

Also, ENDESA has provided guarantees for various Group companies to secure sundry commitments amounting to €948 million, the most important of which relate to Endesa Energía (€187 million), Endesa Generación (€120 million), Endesa Distribución Eléctrica (€351 million), Endesa Europa (€116 million), ECYR (€38 million) and CARBOEX (€57 million).

Management of ENDESA considers that no material liabilities will arise for the Company as a result of the guarantees provided.

b) INSURANCE

The Company has taken out insurance policies to cover the possible risks to which its utility plant and that of subsidiaries in which it has an ownership interest of 50% or more are subject, with limits and coverage that are adequate for the types of risk involved and for the countries in which they operate. Any third-party claims that might arise as a result of the performance of their business activities are also covered.

c) DERIVATIVES TRANSACTIONS

As of December 31, 2005, the notional and market values of the derivatives contracts, all of which were used as hedges, were as follows:

	Millions of Euros	Market Value
	12/31/05	**12/31/05**
In euros		
COLLARS	100	(2)
INTEREST RATE SWAPS	6,406	(203)
CAP SPREAD	1,500	5
Subtotal	8,006	(200)
In foreign currencies		
INTEREST RATE SWAPS	110	1
CURRENCY SWAPS	193	(6)
FORWARDS	184	(2)
Subtotal	487	(7)
TOTAL	**8,493**	**(207)**

The equivalent euro value of the unsettled foreign currency hedging transactions between ENDESA and Endesa Financiación Filiales, S.A. was €43 million as of December 31, 2005 (see Note 4-m).

The results of these transactions are included in the calculation of the average financial cost of the debt detailed in Note 12.

d) OTHER CONTINGENCIES

Gas Natural SDG, S.A. has filed with the Barcelona Commercial Courts a statement of claim against Endesa and the members of its Board of Directors in which, among other matters, it requests that interim measures be taken to prohibit the distribution of dividends tied to the gain obtained on the sale of Auna. Although the legal advisers of Endesa consider this request to absolutely unfounded, in view of the limitations inherent to any injunctive relief proceedings, the possibility of a court judgment being handed down suspending or limiting the distribution of dividends by the shareholders at the Annual General Meeting of Endesa cannot be ruled out.

15.- TRANSACTIONS WITH GROUP AND ASSOCIATED COMPANIES

The detail of the balances at year-end and of the transactions in 2005 with Group and associated companies is as follows:

Group companies

	Millions of Euros
	2005
Assets	
Accounts receivable	112
Long-term loans granted (Note 7)	75
Short-term loans granted (Note 7)	1,838
Total	**2,025**
Liabilities	
Long-term financial payables	8,119
Short-term financial payables	1,607
Other current liabilities	677
Total	**10,403**
Fixed asset purchases	15
Total	**15**
Expenses	
Financial expenses	382
Other expenses	24
Total	**406**
Revenues	
Net sales (Note 16)	271
Revenues from equity investments (Note 7)	2,985
Other financial revenues (Note 7)	8
Total	**3,264**

Associated companies

	Millions of Euros
	2005
Assets (Note 7)	
Short-term loans granted	1
Total	**1**
Revenues (Note 7)	
Revenues from equity investments	3
Other financial revenues	1
Total	**4**

The balance of the long- and short-term loans granted to Group companies includes the net corporate income tax receivables amounting to €720 million, dividends out of 2005 income amounting to €1,114 million and the participating loan of €75 million granted to Endesa Energía, S.A.

The long- and short-term financial payables to Group companies relate mainly to the financing granted by International Endesa, B.V. (€1,877 million) and by Endesa Financiación Filiales, S.A. (€7,589 million).

The net sales of €271 million relate to billings for services provided to Group companies.

The financial expenses derived from the financing granted by Internacional Endesa, B.V. and by Endesa Financiación Filiales, S.A. amounted to €56 million and to €324 million, respectively, in 2005.

The dividends received from Group and associated companies are detailed in Note 7 to these financial statements.

Contractual relationships with subsidiaries

ENDESA has entered into several contracts for services with its subsidiaries on an arm's-length basis. Also, ENDESA has arranged several exchange rate hedging transactions with Endesa Financiación Filiales, S.A.

16.- REVENUES AND EXPENSES

Net revenues

Net revenues amounted to €271 million and relate in full to services provided to Group companies.

Fees paid to auditors

The fees received from ENDESA by the Company's auditors in 2005 for their work relating to the audit of ENDESA's financial statements and the consolidation of the Group that it heads, excluding the fees relating to the audit of the subsidiaries' financial statements, amounted to €3,027,829.

Additionally, the auditor of the Company's financial statements received €1,615,959 in 2005 for other professional services, of which €355,742 corresponded to other audit-related services and €1,260,217 to sundry services.

Also, the services provided by other audit firms amounted to €744,648, of which €433,168 relate to other audits and audit-related services and €311,480 to sundry services.

Nonoperating revenues and expenses

The detail of the nonoperating revenues and expenses in 2005 is as follows:

	Millions of Euros	
	Revenues	**Expenses**
Variation in long-term investment valuation allowances (Note 7)		(1,120)
Provisions for third-party liability recorded and used (Note 11)	191	47
Extraordinary amortization of deferred charges due to the transition to competition (see Note 9-b)		559
Gain on disposal of utility plant	2	
Other nonoperating revenues and expenses	24	5
Prior years' revenues, expenses and losses		1
Total	**217**	**(508)**

The variation in the "Long-Term Investment Valuation Allowances" caption relates mainly to the reversal of provisions for Endesa Internacional, S.A. and Endesa Participadas, S.A. amounting to €930 million and €231 million, respectively. These variations are mainly due to the improvement in the Latin American subsidiaries' results and net worth and to the result of the divestments made at investees.

17.- HEADCOUNT

The average number of employees in 2005, by category, was as follows:

Category	**Average Headcount**
Managers and university graduates	497
Junior college graduates	101
Supervisors	73
Clerical staff and manual workers	39
Total	**710**

18.- 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.

1. DIRECTORS' COMPENSATION IN 2005

a) Directors' compensation and other benefits:

Type of compensation	Thousands of Euros
Fixed compensation	(1) 2,937
Variable compensation	1,733
Attendance fees	1,112
Bylaw-stipulated fees	-
Stock options and other financial instruments	-
Other	32
TOTAL:	**5,814**

Other benefits	Thousands of Euros
Advances	343
Loans granted	93
Pension funds and plans: contributions	(2) 2,359
Pension funds and plans: obligations assumed	-
Life insurance premiums	326
Guarantees provided by the Company for the directors	(2) 10,369

(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 pensions and compensation for employees reaching certain ages and years of service.

For the employees referred to in the preceding paragraph, the 2005 contribution to pension funds and plans in relation to future services amounted to €1,389 thousand and the guarantee for future remuneration rights under the "Guarantees provided by the Company for the Directors" caption amounted to €10,369 thousand. The latter figure will decrease each year the director stays at the Company in question.

b) Total compensation by type of director:

Thousands of Euros

Type of director	By Company
Executive directors	4,184
Nonexecutive nominee directors	142
Nonexecutive independent directors	1,388
Other nonexecutive directors	100
Total	**5,814**

c) Total compensation and percentage with respect to the income attributed to the Company:

Total directors' compensation (in thousands of euros)	**5,814**
Total directors' compensation / income attributed to the company (expressed in %)	**0.20%** (*)

(*) 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 0.02%.

2. IDENTIFICATION OF THE MEMBERS OF SENIOR MANAGEMENT WHO ARE NOT EXECUTIVE DIRECTORS AND DETAIL OF THE TOTAL COMPENSATION PAID TO THEM IN THE YEAR:

Name	Position
01. Francisco Borja Acha Besga	Corporate Legal Counseling Manager
02. José Damián Bogas Gálvez (1)	General Manager for Spain and Portugal
03. Gabriel Castro Villalba	Corporate Communications Manager
04. Mª Isabel Fernández Lozano	Assistant Corporate Manager to the Corporate Services Manager
05. Pedro Larrea Paguaga	Energy Management General Manager
06. Germán Medina Carrillo **(1)**	Corporate Human Resources Manager
07. Salvador Montejo Velilla	General Secretary and Secretary of the Board of Directors
08. José Luis Palomo Álvarez (**1**)	Corporate Financial and Control Manager
09. Antonio Pareja Molina **(1)**	Corporate Services Manager
10. José Luis Puche Castillejo	Corporate Audit Manager
11. Carlos Torres Vila	Corporate Strategy Manager
Total compensation of senior management (in thousands of euros)	**6,891**

(1) They are subject to the same system as that described in note (2) section a) of point B.1.8 "Other Benefits", with its related terms and conditions.

3. GUARANTEE CLAUSES FOR SENIOR MANAGEMENT, INCLUDING THE EXECUTIVE DIRECTORS OF THE COMPANY, IN THE EVENT OF DISMISSAL OR CHANGES IN CONTROL.

Number of beneficiaries: 13

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, they are in line with standard practice in the market, as can be observed from the reports requested by the Company, they were approved by the Board of Directors on the basis of 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 governing these clauses is as follows:

Termination of the employment relationship:

– By mutual agreement: severance equal to three times the annual compensation.

– 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 or other cases of termination to which severance applies as provided for in Article 10-3 of Royal Decree 1382/1985.

– As a result of termination by the Company: severance equal to that described in the first point.

– 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.

These conditions are alternatives to those derived from the modification of the preexisting employment relationship or of the termination thereof due to early retirement for the CEO and senior executives.

Post-contractual non-competition clause:

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

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 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**	**Enagas, S.A.**	**0.00079**	**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	**A 48010615**	**Iberdrola, S.A.**	**0.00104**	**None**
	A 28005239	**Unión FENOSA, S.A.**	**0.00277**	**None**
	A 78003662	**Red Eléctrica España**	**0.00028**	**None**
	00811720580	**ENEL, S.p.A.**	**0.00004**	**None**
José Serna Masiá	**A 48010615**	**Iberdrola, S.A.**	**0.00091**	**None**
	A 28005239	**Unión Fenosa, S.A.**	**0.00098**	**None**
Manuel Ríos Navarro	**00811720580**	**ENEL, S.p.A.**	**0.00008**	**None**

Also, pursuant to the aforementioned Law, it is hereby stated that there is no record that any members of the Board of Directors carry on, or carried on in 2005, activities, as independent professionals or as employees, that are identical, similar or complementary to the activity that constitutes the corporate purpose of ENDESA.

In 2005 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 managing bodies of the Company.

19.- STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Millions of Euros	
Funds were used for	**2005**	**2004**
Debt arrangement expenses	5	2
Fixed asset additions	1,890	27
Intangible assets	16	11
Utility plant	2	
Long-term investments	1,872	16
Group companies	279	
Other investments	1,593	16
Acquisition of treasury stock	4	154
Dividends	816	752
Repayment or transfer to short term of long-term debt	1,109	1,159
Debt securities and other similar liabilities	42	
Group companies	421	1,046
Other debts	646	113
Provisions for contingencies and expenses	10	
Other funds used	6	13
Total funds used	**3,840**	**2,107**
Funds obtained in excess of funds used	**346**	**-**

Funds were obtained from	Millions of Euros 2005	2004
Operations	2,709	607
Long-term debt	1,301	919
Group companies	222	
Other companies	1,079	919
Fixed asset disposals	172	16
Utility plant	1	
Long-term investments	171	16
Group companies	158	
Other investments	13	16
Disposal of treasury stock	4	198
Early redemption or transfer to short term of long-term investments	-	8
Other investments	-	8
Other	-	6
Total funds obtained	**4,186**	**1,754**
Funds used in excess of funds obtained	**-**	**353**

Variation in Working Capital	Millions of Euros 2005 Increase	2005 Decrease	2004 Increase	2004 Decrease
Accounts receivable	275			160
Accounts payable		1,245	38	
Short-term investments	1,336			287
Cash		14	52	
Accrual accounts		6	4	
Total	**1,611**	**1,265**	**94**	**447**
Variation in working capital	**346**			**353**

Funds obtained from operations	Millions of Euros 2005	2004
Net income:	2,977	841
Add:		
Depreciation and amortization expense	34	30
Extraordinary amortization of deferred charges due to the transition to competition	559	-
Period provisions for third-party liability	58	71
Variations in allowances for loans	-	2
Exchange losses	3	-
Deferred interest expenses	9	10
Decrease in deferred tax assets and increase in deferred tax liabilities	390	142
Subtotal	1,053	255
Less:		
Overprovision for contingencies and expenses	191	41
Overprovision for investment securities	1,120	420
Exchange gains	8	12
Gains on fixed asset disposals	2	16
Subtotal	1,321	489
Total	**2,709**	**607**

20.- EVENTS SUBSEQUENT TO YEAR-END

There were no significant events subsequent to 2005 year-end.

21.- EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

EXHIBIT

TRANSACTIONS SUBJECT TO THE SPECIAL REGIME ESTABLISHED UNDER CHAPTER VIII OF TITLE VII OF LEGISLATIVE ROYAL DECREE 4/2004

(Amounts in Euros)

1.- PARTIAL SPIN-OFF OF ENDESA PARTICIPADAS

Assets delivered

- Investment in Endesa Cogeneración y Renovables, S.A.	127,073,792.19
- Investment in Endesa Ingeniería, S.A.	3,006.00
- Book value of assets delivered	127,076,798.19

Capital increases

	Capital Stock	Additional Paid-in Capital	Total
- Endesa Generación, S.A.	63,536,895.67	63,536,900.33	127,073,796.00
- Endesa Red, S.A.	1,502.53	1,503.47	3,006.00

2.- NONMONETARY CONTRIBUTION TO ENDESA NETWORK FACTORY

Assets delivered

- Book value of loan granted by ENDESA	36,000,000.00

Capital increase

	Capital Stock	Additional Paid-in Capital	Total
- Capital increase at Endesa Network Factory	10,800,000.00	25,200,000.00	36,000,000.00

3.- NONMONETARY CONTRIBUTION TO ENDESA SERVICIOS

Assets delivered

- Book value of investments in Network Factory S.L.	27,474,540.12

Capital increase

	Capital Stock	Additional Paid-in Capital	Total
- Capital increase at Endesa Servicios	4,753,521.00	22,721,019.12	27,474,540.12

MANAGEMENT REPORT

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

BUSINESS PERFORMANCE

ENDESA, S.A. ("ENDESA") is a holding company and, accordingly, its revenues consist mainly of the dividends collected from its subsidiaries and its expenses relate principally to the cost of its debt. Also, investment valuation allowances are recorded or reversed on the basis of the net worth variations of the subsidiaries.

Also, ENDESA has retained title to the remuneration for the costs of transition to competition that initially corresponded to the Group companies, signifying that the revenues and expenses relating to the costs of transition to competition are recorded at ENDESA.

MAJOR RISKS ASSOCIATED WITH ENDESA's BUSINESS ACTIVITY

ENDESA, as the parent company of a corporate Group, is indirectly exposed to the risks associated with its subsidiaries, through the valuation of its investment portfolio and the dividends received on these investments. The ENDESA Group carries on its business activities in an environment in which there are outside factors that can affect the performance of its operations and its earnings. The main risks to which Endesa's operations are exposed are as follows:

Risks associated with business activities

The Group's operations are subject to a wide range of regulations, and any changes made could have an adverse effect on the Group's business activities, economic position and results of operations. In particular, under Spanish law, pursuant to Royal Decree-Law 5/2005, if the overall costs of the electricity system, as calculated by the Spanish authorities for a given year, exceed the total amount of the electricity rates billed to end customers, certain companies, including ENDESA, are obliged to finance this shortfall by paying a sum, set through regulations, equal to the difference between (i) these overall costs; and (ii) the total amount of the rates billed to the end customers ("rate deficit"). In the case of ENDESA, the Group's Parent is obliged to finance 44.16% of the shortfall in income from regulated activities. The rate shortfall exists because certain expenses included in the overall costs, above all the cost of power purchased on the wholesale market, are determined in a competitive market, whereas the government sets the electricity rates. Based on the legal nature and background of this financing, ENDESA is entitled to a full refund of the amounts financed, although the government has to establish a specific procedure for the recovery thereof.

The operations of the various subsidiaries are subject to wide-reaching environmental legislation, and any changes made could have an adverse effect on their business activities, economic position and results of operations.

A considerable volume of the power produced by ENDESA's subsidiaries in certain markets is subject to market forces that might affect the price and volume of power sold by it.

The activity of certain of ENDESA's subsidiaries could be affected by hydrological conditions.

The financial position and results of operations of ENDESA and its subsidiaries may be adversely affected if it does not effectively manage its exposure to interest rate and foreign currency exchange rate risk. ENDESA and its Group companies are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations and, therefore, it actively manages these risks in order to avoid them having a significant effect on earnings. However, the risk management strategies may not be fully successful in limiting exposure to changes in interest rates and foreign currency exchange rates, which could adversely affect the financial position and results of operations.

The construction of new facilities by certain ENDESA subsidiaries may be adversely affected by factors commonly associated with such projects since the construction of such facilities may be time-consuming and highly complex.

Endesa could be subject to environmental and other liability in connection with its operations.

The deregulation of the European electricity industry could lead to greater competition and lower prices which would affect the subsidiaries operating in this industry.

Risks associated with Latin American operations

The Group's Latin American subsidiaries are exposed to certain risks, such as economic crises and political risks.

Other risks

ENDESA and its Group companies are involved in court proceedings and arbitration. Although ENDESA considers that it has recognised the appropriate provisions based on the legal contingencies at December 31, 2005, it cannot guarantee that it will be successful in all the proceedings or that an adverse decision might not significantly and adversely affect its business activities, financial position or results of operations or those of its subsidiaries.

Tender offer

On September 5, 2005, Gas Natural, S.A. applied to the Spanish National Securities Market Commission ("CNMV") for authorization to make a tender offer on all the shares of ENDESA. The tender offer is subject to the authorization of the relevant administrative authorities. It could also be subject to the fulfilment of such conditions as might be imposed by the antitrust authorities which, as yet, are unknown. For this and other reasons, there is a degree of uncertainty as to its authorization, formalization and results. Should the offer be authorized and the acquisition ultimately take place, we cannot determine how the offer might affect ENDESA's business activities, financial position and/or results of operations.

EARNINGS ANALYSIS

An operating loss of €48 million was incurred, mainly since in 2005 no revenues arose from remuneration for the transition to competition, since the Spanish electricity industry's regulated revenues were insufficient to cover the regulated system costs. This loss included the amortization of deferred charges for the transition to competition amounting to €23 million.

The Company reported financial income of €2,348 million. Financial revenues amounted to €3,016 million, mostly composed of dividends from subsidiaries amounting to €2,985 million. The most significant of these dividends were the €720 million from Endesa Participadas and the €1,288 million from Endesa Generación. Financial expenses amounted to €668 million.

Nonoperating income of €725 million was reported, mainly due to a reversal of portfolio allowances amounting to €1,120 million, which included most significantly the amounts of €930 million for Endesa Internacional and €231 million for Endesa Participadas. Additionally, in 2005 no revenues were obtained from the remuneration for the transition to competition; accordingly, pursuant to Royal Decree 437/1998, since there were no grounds to reasonably assume that ENDESA would obtain future revenues under this heading, extraordinary amortization amounting to €559 million was taken on the deferred charges for the transition to competition and, as a result, the balance existing as of December 31, 2004, was fully amortized.

Income before taxes amounted to €3,025 million and income after taxes amounted to €2,977 million, after deducting €48 million for corporate income tax.

INVESTMENTS AND DIVESTMENTS

The main investments and divestments in 2005 are described in Note 7 to the financial statements.

FINANCIAL TRANSACTIONS

The main financing transactions carried out by ENDESA in 2005 were as follows:

- In April ENDESA arranged a syndicated transaction totaling €2,000 million with 38 institutions, in two tranches, the first of these being a loan of €500 million, and the second a credit facility of €1,500 million. Both these tranches mature at five years, are repayable in a single installment on maturity, and may be extended twice for an additional year each time on completion of the first and second year of the transaction.

- Between March and April, ENDESA's long-term credit lines for an aggregate amount of €3,758 million were renegotiated and their terms were extended from the remaining three-and-a-half years to five years (with the option to extend them for another year on completion of the first year and yet another year on completion of the second) and their financial cost reduced.

- To finance its investments in distribution in the period 2005-2006, in September ENDESA arranged a €600 million loan from the European Investment Bank. At year-end, €300 million had been formally arranged and there was a commitment to arrange an additional €300 million at the beginning of 2006. The average life of the transaction will be 7.6 years.

- In April ENDESA, through its subsidiary Endesa Capital, S.A., made the first two private placements of €36 million and ¥3,000 million which mature at 12 and 10 years, respectively. The second transaction was swapped for its equivalent euro value.

- The Company continued to issue commercial paper under Internacional Endesa BV's "Euro Commercial Paper" program, secured by ENDESA, the limit of which is US$ 2,000 million. The outstanding balance at year-end was €988 million.

- Under the Spanish promissory note program, ENDESA continued to hold fortnightly auctions in which the main Spanish financial institutions participated. The outstanding balance in this connection at year-end amounted to €128 million.

RISK MANAGEMENT POLICY

The Endesa Group is exposed to certain risks which it manages by applying risk identification, measurement, concentration limitation and oversight systems.

The main principles defined by the ENDESA Group when establishing its policy for the management of the principal risks are as follows:

- Comply with the principles of good corporate governance.
- Comply strictly with all ENDESA's rules.
- Each business and corporate area defines:
    - The markets and product lines in which it can operate on the basis of having sufficient know-how and capabilities to ensure effective risk management.
    - Criteria concerning counterparties.
    - The authorised operators.
- The businesses and corporate areas establish for each market in which they operate the level of risk that they are prepared to assume on a basis that is consistent with the strategy defined.
- The limits of the businesses and corporate areas are approved by their respective Risk Committees or, should they not have one, by the ENDESA Risk Committee.
- All the businesses and corporate areas must conduct their business within the limits approved in each case.
- The businesses, corporate areas, lines of business and companies establish the risk management controls required to ensure that the transactions are performed in the markets in accordance with the policies, principles and procedures of ENDESA.

Interest rate risk

Interest rate fluctuations change the fair value of assets and liabilities that bear a fixed interest rate and the future flows from assets and liabilities bearing interest at a floating rate.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimize the cost of the debt over several years with reduced income statement volatility.

Based on ENDESA's estimates and debt structure targets, hedging transactions are carried out by arranging derivatives that mitigate these risks.

The reference interest rates for the debt arranged by ENDESA are mainly Euribor and US dollar Libor.

Exchange rate risk

Exchange rate risks arise mainly from payments to be made in international markets for the purchase of fuel stocks by ENDESA subsidiaries.

In addition, the net investments in foreign companies whose functional currency is not the euro are exposed to the risk of fluctuating exchange rates in the translation of the financial statements of these foreign operations on consolidation.

In order to mitigate the foreign exchange risk, ENDESA arranged currency swaps and interest rate hedges. ENDESA also attempts to achieve a balance between the cash collections and payments relating to its assets and liabilities denominated in foreign currencies.

Liquidity risk

ENDESA's liquidity policy consists of the arrangement of committed credit facilities and short-term investments for an amount sufficient to cater for the projected needs for a given period based on the status and expectations of the debt and capital markets.

Credit risk

ENDESA is not exposed to significant credit risk since cash placements are made and derivatives are arranged with highly solvent entities.

EVENTS SUBSEQUENT TO YEAR-END

The events subsequent to 2005 year-end are described in Note 20 to the financial statements.

FUTURE OUTLOOK

ENDESA’s earnings in future years will be determined by the dividends that it receives from the subsidiaries, the amounts billed for services rendered and interest expenses on the debt financing its assets. Accordingly, ENDESA’s earnings will be dependent on those of its subsidiaries, since the Company’s intention is that the subsidiaries distribute substantially all their distributable income in the form of dividends.

The Company’s directors consider that the dividend policy established for the subsidiaries will be sufficient to enable ENDESA to achieve earnings that ensure that its stockholders are adequately remunerated.

TREASURY STOCK

As authorized by the stockholders at the General Meetings on April 2, 2004 and May 27,2005, and to facilitate the liquidity of trading in its shares at particular times, in 2005 ENDESA acquired 250,613 shares of treasury stock for €4.5 million (at an average price of €17.91 per share) and sold 250,613 shares for €4.6 million (at an average price of €18.51 per share), giving rise to a capital gain of €0,1 million with respect to the acquisition price.

As of December 31, 2005, ENDESA did not hold any shares of treasury stock.

RESEARCH AND DEVELOPMENT

The Company did not carry out any research and development activities in 2005.

PROPOSED DISTRIBUTION OF INCOME

PROPOSED DISTRIBUTION OF INCOME

The income for 2005 of ENDESA, S.A. amounted to €2,976,834,460.45 which, together with its retained earnings amounting to €212,964,366.22, gave a total of €3,189,798,826.67.

The Board of Directors will propose to the Stockholders' Meeting that this amount be used to pay to the holders of shares carrying dividend rights €2.40 gross per share and to appropriate the remainder to retained earnings.

	Euros
Dividend (maximum amount to be distributed relating to €2.40/share for all the shares (1,058,752,117 shares))	2,541,005,080.80
To retained earnings	648,793,745.87
Total	3,189,798,826.67
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