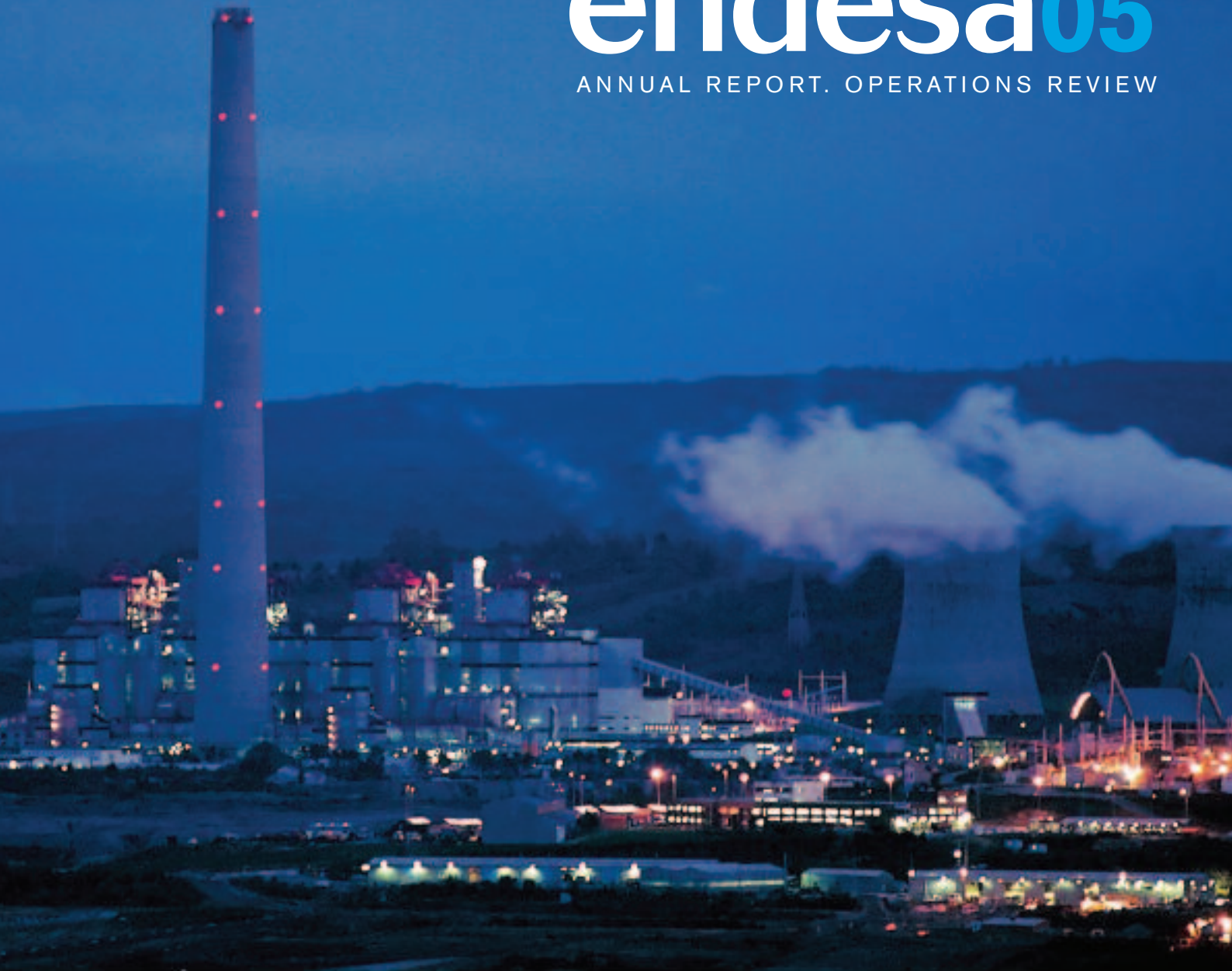


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ANNUAL REPORT. OPERATIONS REVIEW



ENDESA ON THE SPANISH STOCK MARKET (CONTINUOUS MARKET) [ELE](#)

ENDESA ON THE NEW YORK STOCK EXCHANGE [ELE](#)

ENDESA ON THE SANTIAGO DE CHILE OFFSHORE EXCHANGE [ENDESPAN](#)

[ENDESA WAS INCORPORATED](#) IN 1944 AS EMPRESA NACIONAL DE ELECTRICIDAD, S.A. AT THE GENERAL SHAREHOLDERS' MEETING HELD ON 25 JUNE 1997 ITS NAME WAS CHANGED TO ENDESA, S.A. [ENDESA S.A. IS REGISTERED](#) IN THE MADRID MERCANTILE REGISTRY, VOLUME 323, SHEET 1, PAGE M-6045. ITS REGISTERED OFFICE AND HEADQUARTERS ARE LOCATED AT RIBERA DEL LOIRA, 60, 28042 MADRID AND ITS CORPORATE TAX IDENTIFICATION NUMBER (CIF) IS A-28023430. [THE COMPANY HAS CAPITAL STOCK](#) OF EURO 1,270,502,540.40, REPRESENTED BY 1,058,752,117 SHARES, EACH WITH A PAR VALUE OF EURO 1.20. [ITS SHARES ARE LISTED](#) ON THE SPANISH STOCK EXCHANGES, THE NEW YORK STOCK EXCHANGE IN THE FORM OF AMERICAN DEPOSITARY RECEIPTS (ADRS) AND ON THE SANTIAGO DE CHILE OFFSHORE EXCHANGE. [ENDESA'S MAIN BUSINESS](#) ACTIVITY IS THE GENERATION, TRANSMISSION, DISTRIBUTION AND SUPPLY OF ELECTRICITY. IT IS ALSO A MAJOR OPERATOR IN THE IBERIAN NATURAL GAS MARKET AND CARRIES OUT OTHER SERVICES THAT ADD VALUE TO ITS CORE BUSINESS. [AT 31 DECEMBER 2005](#) ITS TOTAL ASSETS WERE EURO 55,365 MILLION. Æ ENDESA IS THE LEADING SPANISH ELECTRIC UTILITY, ONE OF THE FIVE LARGEST ELECTRIC UTILITIES IN EUROPE AND THE BIGGEST PRIVATE ELECTRICITY MULTINATIONAL IN LATIN AMERICA. IT OPERATES IN THE ELECTRICITY MARKETS OF 14 COUNTRIES SPANNING THREE CONTINENTS. [IN 2005, THE COMPANY REPORTED](#) NET INCOME OF EURO 3,182 MILLION, [EBITDA](#) OF EURO 6,020 MILLION, [EBIT](#) OF EURO 4,244 MILLION AND [TOTAL REVENUES](#) OF EURO 17,508 MILLION. AT THE END OF 2005, [ENDESA'S WORKFORCE TOTALLED](#) 27,204, WITH 12,709 STAFF EMPLOYED IN ITS BUSINESS IN SPAIN AND PORTUGAL AND 14,495 IN OTHER COUNTRIES AND BUSINESS AREAS.

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FINANCIAL DATA

(€ Million)

Data for 2004 and 2005 are calculated using International Financial Reporting Standards while data for other years are calculated under Spanish GAAP

BALANCE SHEET DATA

	2001	2002	2003	2004	2005
TOTAL ASSETS	50,187	48,176	46,047	47,182	55,365
Electricity business in Spain and Portugal	25,174	23,885	23,246	24,878	30,204
Electricity business in Latin America	21,763	16,233	14,993	14,284	17,136
Electricity business in Europe	0	4,956	5,217	6,198	6,837
Other businesses	3,250	3,102	2,591	1,822	1,188
FIXED TANGIBLE ASSETS	30,152	27,741	26,962	28,910	32,313
Electricity business in Spain and Portugal	16,194	15,601	15,381	16,657	18,176
Electricity business in Latin America	13,112	9,286	8,575	8,715	10,565
Electricity business in Europe	0	2,349	2,605	3,532	3,572
Other businesses	846	505	401	6	0
ASSETS OF PARENT COMPANY	8,656	8,043	8,801	8,728	11,590
Electricity business in Spain and Portugal	4,210	4,145	4,767	4,819	5,918
Electricity business in Latin America	3,578	2,098	2,308	2,341	3,164
Electricity business in Europe	0	1,443	1,496	1,667	1,979
Other businesses	868	357	230	(99)	529
MINORITY SHAREHOLDERS' EQUITY	3,762	3,175	4,945	3,831**	4,737
Electricity business in Spain and Portugal	174	90	1,604*	116	119
Electricity business in Latin America	3,530	1,897	2,935	3,077	3,763
Electricity business in Europe	0	1,130	355	638	855
Other businesses	58	58	51	-	-
FINANCIAL DEBT	25,007	22,747	17,250	18,698**	18,281
Electricity business in Spain and Portugal	11,768	9,394	6,429	9,586	11,461
Electricity business in Latin America	11,525	9,599	6,560	5,350	6,109
Electricity business in Europe	0	1,627	2,437	2,123	1,286
Other businesses	1,714	2,127	1,824	1,639	(575)

* Includes the Euro 1,500 million in preferred notes issued in March 2003.

** Figures at 01.01.05.



STATEMENT OF INCOME

(€ Million)

Data for 2004 and 2005 are calculated using International Financial Reporting Standards while data for other years are calculated under Spanish GAAP

	2001	2002	2003	2004	2005
OPERATING REVENUES	16,085	17,238	16,644	13,665	18,229
Electricity business in Spain and Portugal	10,254	11,075	10,797	6,719	9,274
Electricity business in Latin America	5,325	4,084	3,623	4,357	5,232
Electricity business in Europe	0	1,760	2,037	2,576	3,720
Other businesses	506	319	187	13	3
EBIT	3,175	3,582	3,144	2,846	4,244
Electricity business in Spain and Portugal	1,799	2,131	1,780	1,432	2,264
Electricity business in Latin America	1,423	1,268	1,071	1,054	1,376
Electricity business in Europe	0	150	268	370	618
Other businesses	(47)	33	25	(10)	(14)
INCOME AFTER TAX AND MINORITIES	1,479	1,270	1,312	1,253	3,182
Electricity business in Spain and Portugal	1,091	2,026	1,207	888	1,358
Electricity business in Latin America	489	(281)	84	127	262
Electricity business in Europe	0	21	52	169	425
Other businesses	(101)	(496)	(31)	69	1,137
EBITDA	5,004	5,278	4,750	4,521	6,020
Electricity business in Spain and Portugal	2,894	3,205	2,824	2,472	3,266
Electricity business in Latin America	2,086	1,735	1,484	1,522	1,878
Electricity business in Europe	0	263	384	535	887
Other businesses	24	75	58	(8)	(11)

SOURCE AND APPLICATION OF FUNDS

(€ Million)

Data for 2004 and 2005 are calculated using International Financial Reporting Standards while data for other years are calculated under Spanish GAAP

	2001	2002	2003	2004	2005
CASH FLOW FROM OPERATIONS	3,347	4,285	3,815	3,418	4,209
Electricity business in Spain and Portugal	2,037	2,537	2,019	1,978	2,669
Electricity business in Latin America	1,383	1,444	1,391	942	1,180
Electricity business in Europe	0	179	352	511	586
Other businesses	(73)	125	53	(13)	(226)
TOTAL INVESTMENTS	5,446	3,963	2,482	3,449	3,640
Electricity business in Spain and Portugal	1,860	2,203	1,437	2,030	2,660
Electricity business in Latin America	1,370	776	505	522	670
Electricity business in Europe	1,451	378	382	448	308
Other businesses	765	606	158	449	2
DIVIDENDS PAID	723	723	744	782	2,541

DATA PER SHARE * (€)

	2001	2002	2003	2004	2005
Earnings	1.40	1.20	1.24	1.19	3.01
Dividend	0.68	0.68	0.70	0.74	2.40
Cash flow	3.16	4.05	3.60	3.25	3.98
Shareholders' equity	8.18	7.60	8.31	8.11***	10.95
Total shareholder remuneration	0.50	(32.70)	42.90	18.00	32.80
P/E ratio (Price/Earnings (x))	12.55	9.29	12.31	14.53	7.38

DATA PER AMERICAN DEPOSITARY RECEIPTS (ADR) IN DOLLARS **

	2001	2002	2003	2004	2005
Earnings	1.23	1.26	1.57	1.61	3.56
Dividend	0.60	0.71	0.80	1.00	2.84

* Like-for-like data take into account the share split carried out in 1997.

** At the exchange rate at end of each year.

*** Data as at 01/01/05.



OPERATING DATA

(€ Million)

Data for 2004 and 2005 are calculated using International Financial Reporting Standards while data for other years are calculated under Spanish GAAP

	2001	2002	2003	2004	2005
WORKFORCE	26,009	26,354	26,777	27,153	27,204
Electricity business in Spain and Portugal	14,140	13,548	13,651	12,889	12,709
Latin American electricity business	10,617	11,166	11,796	11,735	12,317
Electricity business in Europe	0	1,168	1,143	2,436	2,153
Other businesses	1,252	472	187	93	25
INSTALLED CAPACITY (MW)	37,124	40,945	41,836	45,850	45,908
Spain and Portugal	23,586	21,897	22,643	22,503	22,416
Hydroelectric	6,180	5,368	5,367	5,368	5,379
Conventional fossil-fuel	12,923	11,956	12,598	12,884	12,632
Nuclear	3,632	3,632	3,637	3,393	3,397
Co-generation & renewables	851	941	1,041	858	1,007
Latin America	13,538	13,328	13,333	14,053	14,095
Europe	0	5,720	5,860	9,294	9,397
OUTPUT (GWh)¹	139,254	151,033	158,081	175,838	185,264
Spain and Portugal	94,807	90,785	93,734	95,679	93,625
Hydroelectric	12,730	7,914	11,548	10,310	7,479
Conventional fossil-fuel	52,389	53,070	52,947	58,029	61,006
Nuclear	28,405	28,391	27,697	25,567	23,020
Co-generation & renewables	1,283	1,410	1,541	1,773	2,120
Latin America	44,447	42,697	46,480	55,106	57,890
Europe	0	17,551	17,867	25,053	33,749
SALES (GWh)	149,649	152,762	163,640	181,217	203,335
Spain and Portugal	85,779	85,602	92,996	96,731	100,868
Regulated market	64,037	62,805	67,701	65,762	64,095
De-regulated market ²	21,742	22,797	25,295	30,969	36,773
Latin America	46,810	47,494	49,526	52,314	55,246
Europe	17,060	19,666	21,118	32,172	47,221
CUSTOMERS (THOUSANDS)	20,509	20,545	21,027	22,156	23,186
Spain and Portugal	10,504	10,253	10,545	11,270	11,964
Regulated market ³	10,496	10,244	10,483	10,717	10,966
De-regulated market	8	8	62	553	998
Latin America	10,005	10,292	10,482	10,886	11,222
Europe	-	-	-	-	-



¹ Output for hydroelectric, conventional fossil fuel and nuclear plants in Spain is measured according to busbar cost

² To coincide with financial data for this business we include sales made by ENDESA Energía in European countries outside of Spain and Portugal.

³ Tariff customers. Does not include toll customers.

LETTER TO SHAREHOLDERS

Dear shareholder:

In this annual report we are pleased to offer a detailed analysis of the business activities carried out by ENDESA in 2005, along with company results and the strategies we intend to implement in the coming years.

2005 results were the best in ENDESA's history. As we describe below, the excellent performance of all its businesses led to significant growth by all key financial figures.

This positive performance was recognised by the securities markets and ENDESA's shares and those of its main subsidiaries registered sharp rises on the markets on which they are listed. This, and dividend payment, has given our shareholders a high return.

ENDESA achieved these good results while at the same time observing the principles of transparency and good corporate governance that have made, and continue to make, us one of the Spanish companies with the best practices in this area and guarantees that the legitimate rights and interests of our shareholders will be respected.

Our business activity reflects the criteria of sustainability that have characterised this group's performance in recent years and which are particularly evidenced by our respect for the environment, the social responsibility that can be expected of a company of the size and nature of ENDESA, and in our commitment to constantly strive to meet the needs of our customers.

ENDESA's robust situation at the end of 2005 means that we shall be able to move confidently towards meeting the targets set in our 2005-2009 Strategic Plan. Shareholder remuneration, based on organic growth, is our priority while strengthening the Management's commitment to achieving its financial targets.

The Company posted record net income in 2005: Euro 3,182 million, the highest figure ever achieved in a full year and an increase of 154% on 2004.

It should be noted that figures were boosted by extraordinary income from the disposal of non-core assets, especially the sale of ENDESA's shareholding in the Spanish telecommunications group Auna. However, even stripping out the capital gains from these disposals, net income growth in 2005 would still be extremely high (60% in like-for-like terms) and still imply a new record for the Company.

Other key income statement data also reflected significant growth. EBITDA was Euro 6,020 million, up 33.2% vs. 2004, and EBIT was Euro 4,244 million, an advance of 49.1%.

The significant growth recorded under these two headings, to which the contribution of the Company's non-electric businesses is negligible, demonstrate that the sharp increase in net income was largely the result of the normal performance of ENDESA's core businesses in its three geographic areas.

All the electricity businesses registered a sharp increase in net income in 2005: +52.9% to Euro 1,358 million in Spain and Portugal, +151.5% to Euro 425 million in Europe, and +106.3% to Euro 262 million in Latin America.

These three business areas made a significant and balanced contribution in 2005, to the extent that the European and Latin American businesses accounted for 45.9% of group EBITDA, underscoring ENDESA's importance as a multinational player and the success of its international expansion policy in recent years, which has resulted in the Group becoming one of the five largest electric utilities in Europe and the number one private utility in Latin America.

The multinational reach of our Company is also evidenced by industrial performance. ENDESA's output was 185,264 GWh in 2005, up 5.4% on 2004, with 49.5% of this produced outside the Iberian market. Total sales stood at 203,335 GWh, 50.4% of which corresponded to Europe and Latin America. This represents growth of 12.2% on 2004 sales, reflecting that the Company operates, in general terms, in markets where demand is strong.

With regard to the core activities of each of these three business areas, we would point out that ENDESA maintained its leadership position in the Spanish electricity market in 2005, with a 38.1% market share in ordinary regime electricity generation, 43.1% in distribution and 41.1% in sales to end customers.

Output totalled 93,625 GWh in Spain, 2.1% less than in 2004, primarily due to downtime at the As Pontes plant group 4 while it was being converted to imported coal generation and at Vandellós for six months due to technical reasons.

Generation took place against a backdrop of severe drought, increasing gas and fuel-oil prices on the international markets and the first year of the National Allocation Plan for CO₂ emission rights. The combined impact of these and other factors resulted in a significant increase in production costs for the system as a whole and a rise in wholesale generation prices.

ENDESA overcame this scenario and for a number of different reasons was able to exploit the situation on the wholesale market better than its rivals. First, because its hydroelectric plants are usually located in catchment areas that are less affected by fluctuations in rainfall than those of its competitors. ENDESA's hydro output therefore fell by 27.5% in 2005 compared with an average sector fall of 42.3%. Second, the Company implemented an effective fuel cost management policy, which meant that CCGT fuel costs were lower than competitors' average costs. And third, our Efficiency Improvement Plan began to bear fruit in the last few months of the year, leading to a 4.4% reduction in fixed costs compared to the same period in 2004.

Good progress was also made on the New Capacity Programme. Work continued on the 400MW Cristóbal Colón CCGT plant in Huelva, which is practically complete, on the 800 MW AS Pontes CCGT plant in La Coruña and on the conversion of the same plant's groups 3 and 4 to imported coal (the second of these starting operating in July). ENDESA also increased its renewable and co-generation capacity by 149 MW and acquired 100% of the Portuguese company Finerge, which operates wind farms and co-generation plants with a total output of 107 MW and has projects underway to bring installed capacity up to 320 MW by 2007.

ENDESA supplied a total of 100,868 GWh to 12 million end customers in Spain. The 2.5% decline in sales in the regulated market –primarily the result of the large number of consumers coming onto the deregulated market– was offset by the significant sales increase in that market (18.7%).

With regard to electricity services, continuity of supply improved thanks to the heavy investment in electricity distribution infrastructure in recent years (Euro 1,389 million in 2005, up 28.9% vs. 2004) and we highlight the progress of the Quality Excellence Plan embarked on in 2004. The SAIDI (System Average Interruption Duration Index which measures service quality) improved by 23% vs. 2004, which means there was continuity of supply in 99.97% of the hours of the year.

This improvement in the SAIDI index does not include the one-off incidents that occurred in the Canary Islands, particularly Tenerife, in the last few days of November as a consequence of hurricane Delta. The speed of its winds was at times twice that which power lines are expected to withstand under current Spanish legislation, and caused severe damage to the island's electricity infrastructure. This damage was repaired by Unelco Endesa as quickly as humanly and technically possible, with power restoration times comparable to those achieved in similar incidents in developed countries.

To conclude this overview of key data for the Spanish and Portuguese business, we would underscore ENDESA's current status as a major operator in the Spanish natural gas market, especially in specific regions, such as Catalonia, where it is the principal challenger to the main operator.

ENDESA sold a total of 21,135 GWh in the Spanish natural gas market in 2005, which, together with the 22,222 GWh consumed by its own plants, represents a total market share of 12%.

As in previous years, the European business posted excellent year end figures. ENDESA's subsidiaries registered an output of 33,749 GWh, up 34.7% on 2004, and sales stood at 47,221 GWh, an increase of 46.8%. ENDESA is one of the five largest electric utilities in Europe, an attribute that can be applied to few Spanish companies in any sector.

We note that in 2005 ENDESA sold 5.33% of Endesa Italia, the third largest generation company in Italy, to ASM Brescia (ENDESA controls 80% of Endesa Italia following this operation). The transaction implied a total value for Endesa Italia of Euro 2,989 million, 36.4% higher than the price ENDESA paid for its original stake in the Italian group in 2001.

Also in 2005, Endesa Italia increased its output by 12% and sales by 17.8% compared with 2004. Progress was made on the repowering programme for its fossil-fuel plants by converting group 3 of its Ostiglia plant and group 6 of its Tavazzano plant to combined cycle generation, the construction of two 400 MW CCGTs in Scandale (Calabria) progressed according to plan and several operations aimed at achieving a more diversified generation mix via wind facilities were carried out: Construction work began on two 56 MW wind farms in Sicily and the agreement with Gamesa was developed – according to which it will take delivery of a 14 MW wind farm in the first few weeks of 2006, part of the 200 MW scheduled for delivery by the end of 2007.

An agreement of intent was also signed to build a regasification plant in Livorno. Through this agreement Endesa Italia will be able to acquire up to 25% of the company owning the terminal and have access to regasification capacity of up to 2 bcm.

Snet, the second largest generation company in France, in which ENDESA holds a 65% controlling stake, produced 10,387 GWh of power in 2005 and sold 4,694 GWh to customers on the country's deregulated market.

Further progress was made on the Company's business plan in 2005. Achievements included a 23% reduction in fixed operating and maintenance costs, the simplification of its corporate structure through the merger with subsidiaries Setne, Setcm and Sodelif and the sale of its 23.62% stake in Séchilienne-Sidec, posting a gross capital gain of Euro 67.9 million. It also began diversifying its thermal capacity, currently entirely comprised of coal-fired units, with the construction of the Léhaucourt wind farm, which will have an output of between 8 and 10 MW.

With regard to our business in North Africa, administrated by the European division which focuses on energy markets in the Mediterranean basin, one of the main landmarks in 2005 was the inauguration of the Tahadart combined cycle plant in January in a ceremony attended by the Kings of Spain and Morocco. This facility, which has capacity of 400 MW and is managed by ENDESA (32% stake) is the only combined cycle plant in that country.

In short, ENDESA's presence in Endesa Italia and Snet, together with other interests in European markets and in North Africa, provides it with a unique platform and significant future opportunities, through organic growth and by exploiting new opportunities in other countries of strategic interest, such as Poland, which is already proving highly profitable. It should be noted that, in addition to contributing Euro 425 million to group net income, Endesa Italia and Snet paid respective dividends of Euro 102 million and Euro 21 million in 2005.

In Latin America, the ongoing process of economic recovery and greater monetary stability in the region were reflected in the sharp rise in electricity demand registered in the markets supplied by ENDESA; this resulted in sales growing 5.6% compared to 2004 to 55,246 GWh. Increased demand led to significant growth in output, + 5.1% to 57,890 GWh despite the gas restrictions in Argentina, which also had an impact on the supply of gas to Chile.

This improved outlook and the greater unit margin being achieved in the generation business mean that the initiatives taken up by some of ENDESA's subsidiaries in the region to increase their installed capacity make complete economic sense. Endesa Chile, for example, is constructing the 377 MW San Isidro II combined cycle plant and the Palmucho and Ojos de Agua hydroelectric facilities. In Peru the combined cycles of the Etevensa plant will have capacity of 480 MW when work concludes in 2006.

The outlook for the Latin American distribution business is good, underpinned by the strong growth in demand in ENDESA's markets - ranging from 4.5% in Colombia to 7.1% in Brazil in 2005 - and the tariff revisions carried out last year in Argentina, Brazil and Peru.

In Argentina, where tariffs have been frozen in pesos for two and a half years, Edesur signed a tariff revision agreement with the government to be implemented in 2006 and which will result in an average 28% increase in the distribution cumulative value (VAD). It has also made a commitment with the Argentine government

to make an integral Tariff Revision in 2006 that will apply in subsequent years. In Brazil, a 23.6% increase in Coelce's tariffs was approved. Finally, in Peru, the average tariffs at Edenor, which are revised every four years, will remain practically unchanged vs. the previous period and increase in line with inflation until the next scheduled revision.

In Latin America, the process of balance-sheet strengthening carried out in recent years continued. This has reduced debt by more than Euro 3,400 million in the last three years, despite the increase registered in 2005 as a result of the sharp rise in the currencies in which the debt has been taken out against the euro. Stripping out this factor, debt would have been cut by Euro 153 million in 2005.

The restructuring of this business also continued with the creation of ENDESA Brazil, which brings together all the Company's interests in this country to obtain strategic and financial benefits, the merger of Elesur and Chilectra in Chile and the start of merger proceedings between two generation subsidiaries in Peru: Edegel and Etevensa.

The financial markets rewarded this financial and corporate restructuring and the Company's strong results. Enersis and Endesa Chile shares rose by 18.7% and 55.1% respectively on the Santiago de Chile Stock Exchange and ratings agencies Moody's and Standard & Poor's significantly improved their credit ratings for both companies.

To sum up, the improved economic outlook means that potential profitability of this business is emerging, as demonstrated by the Euro 470 million recovered from the Colombian companies Codensa and Emgesa via capital reductions and the fact that, for the first time in its history, the Latin American business paid dividends of Euro 113 million to ENDESA as its parent company in 2005.

To conclude this overview of the Company's businesses, we would mention the disposal of all ENDESA's shareholdings in the telecommunications sector, which was one of the most important achievements in 2005.

The Company sold its 32.71% shareholding in the Spanish group Auna in an operation that was undertaken in two tranches: in the first a 27.7% stake was sold to France Telecom on 8 November, and in the second the remaining 5.01% was sold to Deutsche Bank; this was completed on 30 December. The two transactions generated a net capital gain of Euro 1,286 million, of which the Euro 171 million corresponding to the second operation will be booked in the first quarter of 2006.

In August ENDESA sold 100% of the Chilean mobile telephony subsidiary, Smartcom, to Mexican operator América Móvil, making a net capital gain of US\$ 51 million.

Additional non-core assets were sold, reaching a total of Euro 3,184 million in 2005 and making a total net capital gain of Euro 1,341 million. Particularly worth mentioning are the operations carried out by the Bologna Real Estate company, created by ENDESA to manage and unlock the value of its real estate assets not connected with its core business by developing urban projects, sales operations and other forms of sustain-

able land management. Total real estate disposals carried out in Spain in 2005 generated a gross capital gain of Euro 105 million.

Through these operations ENDESA has met the main objectives of its Strategic Plan, which include the disposal of non-core assets at the most advantageous moment to create value for shareholders and allow the Company to focus on its core business.

We would also point out that the favourable business performance in 2005 was rewarded by the financial markets. ENDESA's share price rose 28.5% on the Spanish Stock Market over the year, more than ten percentage points higher than the Ibex 35, and its American Depositary Receipts (ADR) rose 11.8% on the New York Stock Exchange, outperforming the Global Index by more than two percentage points.

Combining the rise of the shares on the Spanish Stock Market with the dividend payment, the total shareholder return for 2005 stands at 32.8%, 14.8% higher than in 2004.

In short, the strong results reported by ENDESA in 2005 reinforce the growth and profitability we have achieved in recent years, allowing us to meet major targets: debt has been reduced by more than Euro 6,700 million since the end of 2001, making the Group more financially sound; we have consolidated our leadership of the Spanish electricity sector, helping to extend the country's electricity infrastructure and significantly improving service quality; we have established a significant presence in Europe, especially in Italy and France, becoming the fifth-largest electric utility on the continent with high margins; we have weathered the Latin American economic crisis, with the result that this business currently makes a significant contribution to net income, and sold our telecommunications business, realising net capital gains of more than Euro 1,300 million which clearly belong to our shareholders.

Overall, ENDESA has met most of its strategic objectives and consolidated its position. Based on these results, we are therefore in a position to pursue further strategic targets and propose more ambitious objectives for the benefit of shareholders.

These aims, which are stated in the document "ENDESA: Stronger business, greater value", presented to the markets in October 2005, are basically to achieve cumulative annual growth of over 12% in net income and between 11% and 12% in EBITDA by 2009, while in the same period returning all capital gains from asset disposals to shareholders via dividends and lowering gearing to below 140%.

In short, if this dividend policy is approved at a General Shareholders' Meeting, ENDESA will pay its shareholders more than Euro 7,000 million in dividends over a period of five years.

The objectives established in the Strategic Plan were amply surpassed in 2005 since, as mentioned previously, both net income and EBITDA were comfortably higher than forecast and gearing was 28% below the maximum established figure. Consequently, 2005 results confirm the viability of our business strategy and dividend policy. The Board of Directors has therefore decided to propose at the General Shareholders' Meeting the payment of a

total gross dividend of Euro 2.4 per share charged against 2005 earnings, implying a total pay-out of Euro 2,541 million, and achieving 36.3% of the dividend pay-out target to 2009.

Also, in order to demonstrate its confidence in the Strategic Plan, the current management team will propose at a General Shareholders' Meeting, at a convenient moment, that its variable compensation be 100% linked to the performance of ENDESA's share price, in addition to reinvesting 50% of this compensation in Company shares.

In relation to satisfying the terms of this business project and dividend policy, mention must be made of the takeover bid launched by Gas Natural for 100% of ENDESA's capital stock on 5 September 2005.

The day after the bid was announced, the Board of Directors of ENDESA unanimously voted in favour of a preliminary assessment indicating that the takeover bid "was hostile in intention and had been planned without ENDESA's knowledge", that "the terms and structure of the bid introduce elements of uncertainty that prevent a precise assessment of the true value of the price offered", that "the financial terms of the bid are manifestly insufficient and in no way reflect the true value of the Company" and that "the operation is incompatible with the regulatory and competition framework", and therefore implies unforeseen risks "which could cause significant damage to ENDESA's shareholders".

This preliminary assessment was published on the date indicated independently of the report that the Board of Directors will have to prepare, as required under prevailing legislation governing takeover bids, in the event that the operation is eventually approved.

It should be emphasised that approval for the bid has not yet been given, and although different regulatory bodies have disclosed their opinions, the process is still ongoing and the takeover bid has not been authorised at the time of going to press.

Whatever the outcome, ENDESA's shareholders can rest assured that the Company's Board of Directors and Management will provide up to date information, as they have via various media since the launch of the bid, so that you will have the necessary facts to defend your rights and to reach the decision that, in your opinion, best serves your legitimate interests.

This has also been the motive behind numerous and varied initiatives (directed at different authorities) undertaken by the Management since the Board of Directors released its preliminary assessment of the takeover bid. All have evolved from the desire and obligation to carry out our responsibilities and meet our commitments to shareholders and defend their interests at all times and in all circumstances.

This is the least that can be expected of a Company like ours which constantly strives to respond to the needs and expectations of all the social groups with which it interacts, in strict adherence to the guiding principles of good corporate governance, corporate social responsibility and sustainable development.

We recognise the rights and interests of nearly a million shareholders who have deposited their savings in ENDESA, who chart its performance and who deserve our sincerest gratitude for the confidence they have placed in our Company.

Also, to our 22 million customers throughout the world to whom we have pledged to provide the best possible service.

And, of course, to all people who work at or for ENDESA, all employees, suppliers and contractors who strive to implement this business project of which they too are an essential part.



Rafael Miranda Robredo
CEO



Manuel Pizarro Moreno
Chairman

CORPORATE GOVERNANCE

In 2005, the corporate bodies of ENDESA, S.A. adopted the following resolutions on corporate governance:

- On 19 April 2005, the Company's Board of Directors unanimously approved the 2004 Annual Corporate Governance Report and the 2004 Audit and Compliance Committee Report on the Company's activities.
- The Shareholders' Meeting held on 27 May 2005, adopted the following resolutions at the proposal of the Board of Directors:
 - To approve the financial statements (balance sheet, statement of income and notes to financial statements) of the Company and of its consolidated group for the year ended 31 December 2004, as well as the conduct of the Company's business in that fiscal year.
 - Appropriation of income and distribution of dividends.
 - To appoint the current external auditors, Deloitte, S.L., as the auditors of ENDESA, S.A. and of its Consolidated Group for 2005.
 - "To revoke and render void the authority for the derivative acquisition of shares of the Company granted by the Annual Shareholders' Meeting held on 2 April 2004.
 - To grant a new authority for the derivative acquisition of treasury stock, as well as pre-emptive rights of subscription of treasury stock, in accordance with Article 75 of the Corporations Law, on the following conditions:
 - a) Acquisitions may be made by any legally permitted means, directly by ENDESA, S.A. itself, by companies of its Group, or by an interposed person, up to the maximum figure permitted by the Law.
 - b) Acquisitions shall be made at a minimum price per share of its par value and a maximum price equal to its market price plus an additional 5%.
 - c) The term of this authority shall be 18 months.
 - "To empower the Board of Directors, as amply as is legally necessary in order that, in accordance with the provisions of article 153.1.b) of the Spanish Corporations Law ("Ley de Sociedades Anónimas"), it may increase the capital stock, in one or more times, and at any time prior to five years from the date of this General Meeting lapsing, in the maximum amount of 635,251,270.20 euros, equivalent to 50% of the figure of capital stock as at the date of the General Shareholders' Meeting, through the issuance of new shares—voting or

non-voting, callable or non-callable—the consideration for the new shares to be issued consisting of monetary contributions, with the power to set the terms and conditions of the capital increase and the characteristics of the shares—within the limits applicable by law and by the bylaws—as well as to freely offer the new unsubscribed shares within a period or periods of preferred subscription, and to establish that, in case of incomplete subscription, the capital will be increased only by the amount of subscriptions made. The Board of Directors is also empowered to exclude the pre-emptive right of first refusal in the terms of article 159 of the Spanish Corporations Law and to apply for admission to trading of the new shares to be issued on the Stock Exchanges".

- To delegate to the Board of Directors, in accordance with the provisions of article 319 of the Mercantile Registry Regulations and the general scheme for bond issues, and with express powers of substitution in the Executive Committee, the authority to issue securities in accordance with the following conditions:
 - a) The securities issued may be simple, non-convertible bonds, preference shares, promissory notes and other fixed income securities.
 - b) The issuance thereof may be carried out on one or more occasions within the maximum period of five (5) years from the date of adoption of this Resolution.
 - c) The delegation to issue the aforementioned securities shall extend to setting the various aspects and conditions of each issue (face or par value, type of issue, redemption price, interest rate, redemption, issue guarantees, admission to trading, etc.).

The delegation to issue securities granted by the Annual General Shareholders' Meeting of May 10, 2002 is heretofore made null and void.

To apply for admission to trading on official or unofficial secondary markets, whether or not organized, whether domestic or foreign, of the bonds or other securities to be issued by ENDESA, S.A. by virtue of this delegation, empowering the Board, with express authorization for substitution in favour of the Executive Committee, to carry out the necessary formalities and actions for the admission to trading before the competent bodies of the various domestic or foreign securities markets.

To authorize the Board of Directors, with express authorization for substitution in favour of the Executive Committee, to grant guarantees on the above securities issues, carried out by companies belonging to the Company's consolidation group.

For the purpose of the provisions of article 27 of the Securities Exchange Regulations, it is hereby expressly stated for the record that, in the event that the delisting of the securities issued by virtue of this delegation is subsequently applied for, the latter shall be adopted with the same formalities as referred to in the said article and, in such case, the interest of the shareholders or bondholders who object to or do not vote for the resolution shall be guaranteed, complying with the requisites established by the Spanish Corporations Law ("*Ley de Sociedades Anónimas*") and ancillary provisions, all of which in accordance with the provisions of the said Securities Exchange Regulations, the Securities Market Act and provisions implementing the same.

- "To reappoint Miguel Blesa de la Parra as a member of the Board of Directors. By virtue of the provisions established in article 38 of the Corporate Bylaws, Mr. Blesa de la Parra shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type c).

"To reappoint Rafael Miranda Robredo as a member of the Board of Directors. By virtue of the provisions established in article 38 of the Corporate Bylaws, Mr. Miranda Robredo shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type a).

"To reappoint Manuel Pizarro Moreno as a member of the Board of Directors. By virtue of the provisions established in article 38 of the Corporate Bylaws, Mr. Pizarro Moreno shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type a).

"To reappoint Francisco Javier Ramos Gascón as a member of the Board of Directors. By virtue of the provisions established in article 38 of the Corporate Bylaws, Mr. Ramos Gascón shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type b).

- To appoint Juan Rosell Lastortras as a member of the Board of Directors. By virtue of the provisions of article 38 of the Corporate Bylaws, Mr. Rosell Lastortras shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type b).

"To appoint Alberto Recarte García-Andrade as a member of the Board of Directors. By virtue of the provisions of article 38

of the Corporate Bylaws, Mr. Recarte García-Andrade shall hold office for a term of four years. His status as a member of the Board of Directors, as per the classification set out in article 37 of the Corporate Bylaws, is established as type b).

- To delegate to the Company's Board of Directors the broadest authorities to adopt such resolutions as may be necessary or appropriate for the execution, implementation, effectiveness and successful conclusion of the General Shareholders' Meeting resolutions and, in particular, for the following acts, without limitation:

a) clarify, specify and complete the resolutions of this General Meeting and resolve such doubts or aspects as are presented, remedying and completing such defects or omissions as may prevent or impair the effectiveness or registration of the pertinent resolutions;

b) execute such public and/or private documents and carry out such acts, legal businesses, contracts, declarations and transactions as may be necessary or appropriate for the execution and implementation of the resolutions adopted at this General Shareholders' Meeting; and

c) delegate, in turn, to the Executive Committee or to one or more Directors, who may act jointly and individually, the powers conferred in the preceding paragraphs.

To empower the Chairman of the Board of Directors, Mr. Manuel Pizarro Moreno, the Chief Executive Officer (CEO) Mr. Rafael Miranda Robredo and the Secretary of the Board of Directors and Secretary General Mr. Salvador Montejo Velilla, in order that, any of them, indistinctly, may:

a) carry out such acts, legal businesses, contracts and transactions as may be appropriate in order to register the preceding resolutions with the Mercantile Registry, including, in particular, *inter alia*, the powers to appear before a Notary Public in order to execute the public deeds or notary records which are necessary or appropriate for such purpose, to publish the pertinent legal notices and formalize any other public or private documents which may be necessary or appropriate for the registration of such resolutions, with the express power to remedy them, without altering their nature, scope or meaning; and

b) appear before the competent administrative authorities, in particular, the Ministries of Economy and Finance and Industry, Tourism and Commerce, as well as before other authorities, administrations and institutions, especially the Spanish Securities Market Commission ("*Comisión Nacional del Mercado de*

Valores”), the Securities Exchange Governing Companies and any other which may be competent in relation to any of the resolutions adopted, in order to carry out the necessary formalities and actions for the most complete implementation and effectiveness thereof.

- On May 27, 2005, the Board of Directors agreed unanimously to adopt the following resolutions:

Having been reappointed a Director of the Company, the continuation of Miranda Robredo as Chief Executive Officer, delegating to him all the powers of the Board of Directors delegable by law or under the Bylaws.

Having been reappointed as Directors of the Company, the continuation of Miguel Blesa de la Parra, Rafael Mirando Robredo and Manuel Pizarro Moreno as members of the Executive Committee of the Board of Directors.

The removal of Juan Ramón Quintás Seoane as member of the Executive Committee of the Board of Directors. This removal was mutual agreed with Mr. Quintás Seoane, in order to cover a vacancy on the Appointments and Compensation Committee.

Having removed Rafael Español Navarro, José Fernández Olano and José Luis Oller Ariño as members of the Board of Directors, and Juan Ramón Quintás Seoane as member of the Executive Committee, and having appointed as Directors Juan Rosell Lastortras and Alberto Recarte García-Andrade, the Board of Directors unanimously agreed to appoint Juan Ramón Quintás Seoane and . Juan Rosell Lastortras as members of the Appointments and Compensation Committee and Alberto Recarte García-Andrade as member of the Audit and Compliance Committee.

- On 28 June 2005, the Board of Directors unanimously agreed to appoint Francisco Javier Ramos Gascón, member of the Audit and Compliance Committee of the Company’s Board of Directors, as Financial Expert, in compliance with section 407 of the Sarbanes-Oxley Act of 2002 (Form 20-F of the SEC).
- At the meeting of 28 June 2005, pursuant to the Appointments and Compensation report, the Board of Directors unanimously agreed to appoint José Luis Oller Ariño as Customer Ombudsman and Antón Costas Comesaña as Chairman of the Board in Catalonia (Fecsa Endesa).
- The Board of Directors also examined and was apprised of the establishment of Internal Transparency Committee of ENDESA, which, under the supervision of the Audit and Compliance Com-

mittee, is responsible for evaluating the facts, transactions, reports or other relevant financial matters communicated externally and determining the manner and deadlines for providing public information. The Committee shall ensure compliance with the principles of reliability, consistency, transparency, control of information flow, guarantee accuracy, legal compliance and responsibility of external financial reporting.

BOARD OF DIRECTORS

HONORARY CHAIRMEN

Feliciano Fuster Jaume
Rodolfo Martín Villa

CHAIRMAN

Manuel Pizarro Moreno

CHIEF EXECUTIVE OFFICER

Rafael Miranda Robredo

DIRECTORS

Alberto Alonso Ureba
Miguel Blesa de la Parra
José María Fernández Cuevas
Jose Manuel Fernández Norriella
Rafael González-Gallarza Morales
Francisco Núñez Boluda
Juan Ramón Quintás Seoane
Francisco Javier Ramos Gascón
Alberto Recarte García-Andrade
Manuel Ríos Navarro
Juan Rosell Lastortras
José Serna Masía

SECRETARY NON DIRECTOR

Salvador Montejo Velilla

EXECUTIVE COMMITTEE

CHAIRMAN

Manuel Pizarro Moreno

MEMBERS

Rafael Miranda Robredo (*Consejero Delegado*)
Alberto Alonso Ureba
Miguel Blesa de la Parra
José María Fernández Cuevas
José Manuel Fernández Norriella

SECRETARY

Salvador Montejo Velilla

AUDIT AND COMPLIANCE COMMITTEE

CHAIRMAN

Francisco Javier Ramos Gascón

MEMBERS

Francisco Núñez Boluda
Alberto Recarte García-Andrade
José Serna Masía

SECRETARY

Salvador Montejo Velilla

APPOINTMENTS AND COMPENSATION COMMITTEE

CHAIRMAN

Rafael González-Gallarza Morales

MEMBERS

Juan Ramón Quintás Seoane
Manuel Ríos Navarro
Juan Rosell Lastortras

SECRETARY

Salvador Montejo Velilla

EXECUTIVE MANAGEMENT COMMITTEE

CHAIRMAN

Chief Executive Officer
Rafael Miranda Robredo

MEMBERS

Executive Vice-President – Spain and Portugal
José Damián Bogas Gálvez

Executive Vice-President – Latin America
Luis Rivera Novo

Executive Vice-President – Europe
Jesús Olmos Clavijo

Senior Vice-President – Finance and Control
José Luis Palomo Álvarez

Senior Vice-President – Strategy
Carlos Torres Vila

Senior Vice-President – Human Resources
Germán Medina Carrillo

Senior Vice-President – Services
Antonio Pareja Molina

Senior Vice-President – Communication
Gabriel Castro Villalba

Senior Vice-President – Legal Adviser
Francisco de Borja Acha Besga

General Secretary and Secretary to the Board of Directors
Salvador Montejo Velilla

GENERAL MANAGEMENT COMMITTEE FOR SPAIN AND PORTUGAL

Executive Vice-President – Spain and Portugal
José Bogas Gálvez

Senior Vice-President – Generation
Manuel Morán Casero

Senior Vice-President – Endesa Red
José Luis Marín López-Otero

Senior Vice-President – Energy Management
Pedro Larrea Paguaga

General Manager – Retailing
Javier Uriarte Monereo

Senior Vice-President – Strategy
Carlos Torres Vila

Senior Vice-President – Legal Adviser
Francisco de Borja Acha Besga

General Manager of ENDESA in Catalonia
Josep María Rovira Vilanova

General Manager of ENDESA in Andalusia and Badajoz
José Antonio Martínez Fernández

General Manager of ENDESA in the Balearic Islands
Jaime Reguart Pelegrí

General Manager of ENDESA in the Canary Islands
José María Plans Gómez

General Manager of ENDESA in Aragón
José Antonio Gutiérrez Pérez

Equity and Accounting Vice-President
Juan María Moreno Mellado

Deputy Vice-President – Human Resources
Miguel Ángel Martínez Fernández

Deputy Vice-President – Strategy, Regulation, the Environment and Sustainable Development
José Casas Marín

Deputy Vice-President – Procurement
José María Cámara Tercero

Communications Manager – Electricity Business and Europe
Antonio Torvá Jordán

Deputy Technical Manager – General Management unit for Spain and Portugal
Pilar Sevilla García

MANAGEMENT COMMITTEE – ENDESA EUROPE

General Manager – Endesa Europe

Jesús Olmos Clavijo

Deputy General Manager – Endesa Europe

Antonio Redondo Cuesta

Economics and Control Manager – Endesa Europe

Celia Ordóñez Gómez

Strategy, Development and Regulation Manager – Endesa Europe

Joaquín Rodríguez Jadraque

Legal Adviser

Rafael Fauquié

Energy Management Manager – Endesa Europe

Francisco Pérez Thoden

General Manager – Endesa Italia

Álvaro Luis Quiralte Abelló

General Manager – SNET

Joaquín Galindo Vélez

Deputy Country Manager – The Maghreb

José Luis Alfaro Bozalongo

Human Resources Manager

Paolo Venerucci

Deputy Manager – Engineering

Carlos Tembours Molina

MANAGEMENT COMMITTEE – ENDESA INTERNATIONAL

Chairman and CEO Endesa Internacional

Luis Rivera Novo

Chairman of Enersis

Pablo Yrarrázabal Valdés

Chairman of Chilectra

Jorge Rosenblut Ratinoff

General Business Manager – Endesa International

Alberto Martín Rivals

General Manager – Energy Management at Endesa International

Héctor López Vilaseco

General Manager – Enersis

Mario Valcarce Durán

General Manager – Endesa Chile

Rafael Mateo Alcalá

General Manager – Chilectra

Rafael López Rueda

General Secretary Endesa International

Alfonso Arias Cañete

MANAGEMENT COMMITTEE – ENDESA SERVICIOS

Senior Vice-President – Services

Antonio Pareja Molina

Assistant Senior Vice-President – Services and Technology

Maribel Fernández Lozano

Deputy General Manager – Systems and Telecommunications

Ramón Cabezas Navas

Innovation and Technology Management Manager

José Arrojo de Lamo

Corporate Purchasing Manager

Gonzalo Martín Picola

Corporate Equity and Customer Relations Manager

Julio César Campillo Fernández

Technical Manager

Arturo Maldonado Majada

Deputy Manager – Planning and Economic Control

María Amor Calzada Canalejo

GENERAL ECONOMIC AND INDUSTRY FRAMEWORK

GENERAL ECONOMIC AND INDUSTRY FRAMEWORK

1. INTERNATIONAL ECONOMIC SCENARIO

The global economy registered robust growth in 2005 against a backdrop of moderate inflation and high oil prices. As a result GDP growth, at more than 4%, was lower than the figure of 5.1% registered in 2004.

The major economies' lesser dependence on energy compared with previous periods in history when oil prices were high and the fact that the rise in prices has largely been due to increased demand, especially from the fastest-growing Asian economies, meant that the adverse impact on international economic activity was less pronounced.

Based on the information available when this report went to press, US GDP grew by 3.5% in 2005 compared with 4.2% in 2004, and Japan's GDP grew by 2.5%, also slightly lower than the previous year's figure. Some of the main emerging economies, such as China, reported GDP growth of around 10%, with strong inflows of foreign investment.

There is, however, considerable risk that energy prices could continue to rise and have a greater impact on inflation. Also, the high US current account imbalance could trigger exchange rate volatility and eventually lead to a sharp rise in long-term interest rates.

1.1. EUROPEAN UNION

In 2005, the economic recovery initiated in 2004 continued but at a slower pace.

GDP growth stood at 1.3% compared to 2% in 2004. Most EU countries registered a lower rate, but we note the 1.8% GDP growth in France, compared with 2.1% in 2004, and the 1.4% increase in the U.K. compared with 3.2% the previous year. Germany's GDP growth rate improved from 1.1% in 2004 to 1.4%.

The most dynamic component of European economic activity was private consumption, which increased by 1.4% compared to 1.3% in 2004, due largely to the lower unemployment rate, down 0.2 percentage points to 8.6% at year end.

The consumer price index, which increased from 2.1% in 2004 to 2.3% in 2005, was particularly affected by the rise in the price of energy raw materials.

1.2. SPAIN

GDP in Spain grew 3.4% in 2005, outstripping the 2004 figure of 3.1%, and that of the euro zone as a whole.

The main performance indicators (private consumption, order book, construction etc.) improved with respect to 2004. The unemployment rate also improved considerably to 9%, two percentage points lower than at the end of 2004. Inflation, however, worsened from 3% in 2004 to 3.4% in 2005.

1.3. LATIN AMERICA

Latin America continued to show the same signs of economic growth registered in 2004, though growth rates were lower. Inflationary risk was kept under control in several countries, underpinning the strong performance witnessed by the financial markets and the lower risk premiums.

Chile showed stable GDP growth at 5.9%, slightly lower than in 2004 (6.1%), but significantly better than in preceding years. Chilean economic growth is being driven by the expansion of its export sector and strong domestic demand.

In Colombia, GDP grew by 4.3% compared to 4% in 2004, and the inflation rate fell from 5.5% in 2004 to 5% at the end of 2005. Peru ended the year with an inflation rate of 1.3%, the lowest in three years, and GDP grew by 5.8%, exceeding the 2004 figure of 5.1% and continuing the growth trend seen over the last five years.

In Brazil, the 2.5% rise in GDP was accompanied by a drop in the inflation rate (from 7.6% in 2004 to 5.7% in 2005), an improvement in the current account balance and stabilisation of the unemployment rate.

Finally, in Argentina GDP grew 8.4%. Although lower than the 9% increase registered in 2004, this figure is still high and ratifies the signs of economic recovery observed in this area since 2003.

2. REGULATORY FRAMEWORK IN EUROPE

2.1. EU LEGISLATION

The working programme presented by the Energy Commissioner at the beginning of 2005 focused primarily on the correct implementation of internal energy market directives, energy efficiency, dialogue with producer countries and improving the ties between environmental and energy policies.

2.1.1. Deregulation of the energy market

Throughout 2005 the European Commission attempted to encourage the transposition into respective national laws of directives 2003/54 and 2003/55, which established common rules for the

internal gas and electricity markets respectively. In July the Commission sent reasoned opinions to 10 member states for failing to transpose these directives.

On 15 November the Commission issued a report on the operation of the energy markets in which it indicated that, despite the success achieved during the initial period of market deregulation, further effort is required to ensure that both consumers and the industry enjoy the full benefits of deregulation. In the Commission's opinion, national markets are still un-integrated, the level of concentration of the industry is high in many countries and the liquidity of the gas markets remains low .

Recommendations for the future include the complete transposition of the aforementioned directives, a country-by-country analysis of the regulatory situation, the strengthening of interconnections and cross-border trade, the separation of regulated and non-regulated activities, drawing up a charter for consumers and analysis of the impact of CO₂ emissions trading on energy prices.

Some of these issues were also highlighted by the European Competition Directorate General when it published, also on 15 November, the preliminary conclusions of an investigation into the electricity and gas markets initiated in June in response to complaints from consumers about the lack of competition and the increase in energy prices in recent years. Its conclusions emphasise the insufficient level of real market deregulation, the high level of concentration, insufficient separation of transmission and distribution activities, the development of new interconnections, the lack of information on wholesale markets and distortions in pricing.

Also, on 25 September Regulation 1775/2005 issued by the European Parliament and Council regarding access conditions to natural gas transmission networks was published. The aim of this regulation is to establish non-discriminatory rules governing access conditions to these networks, taking into account the characteristics of national and regional markets, with the aim of ensuring the correct operation of the internal gas market.

2.1.2. Security of supply

On 28 June the European Parliament approved the Directive on Security of Electricity Supply, pursuant to which member states have to define transparent, stable and non-discriminatory policies to guarantee the supply of electricity in a manner that is compatible with the internal electricity market.

Following the Informal Summit of Heads of State and Governments held in October, the EU Presidency launched an initiative to make energy policy an authentic community policy in order that member states, instead of taking individual decisions on their respective energy strategies, will achieve a greater degree of coordination in this area. It was in this context that the Energy Commissioner announced

that the updated version of the Green Paper on Security of Supply drawn up in 2000 would be presented in 2006, detailing the framework for this new community energy policy.

2.1.3. Energy savings

In June the EC adopted the Green Paper on Energy Efficiency. This Green Paper confirms the increase in oil prices and the EU's high dependence on imported energy (70% of energy needs forecast to be covered by imports in 2005-2030) and proposes a wide range of actions including the creation of national energy efficiency programmes and the improvement of tariff and taxation systems in compliance with the "polluter pays" principle.

In December, the draft Energy Efficiency Directive was adopted. This Directive, which is indicative, requires member states to achieve energy savings of 9% in 2008-2017 at an average rate of 1% per year. Member states must present action plans showing the measures they propose to implement to achieve this target. Once these have been studied, the EC may request additional measures to replace those that deviate from the targets set and even revise the objectives of these programmes.

Within the framework of this Directive a more consistent billing system will be established based on real energy consumption measured by smart meters that will be installed in all new buildings and during the refurbishment of large buildings.

2.1.4. EU Communication on renewable energy sources

On 7 December the EU approved a Communication aimed at analysing the implementation of the Directive on renewable energy sources and the aid systems for renewable energies adopted by the member states.

In this Communication the EC proposes greater cooperation between countries that have adopted the same aid system –for example compensation for renewable energies paid in Germany, France and Spain, and the system of "green certificates" in the Scandinavian countries– and, secondly, optimising these systems by improving their stability, reducing administrative obstacles, improving access to the networks, promoting new technological developments, greater compatibility with internal energy market, etc.

2.1.5. Aid plan for coal mining

On 21 December the Commission members approved the aid package granted to the Spanish coal industry for the period 2003-2005.

The EC had opened an investigation into the Restructuring Plan for the Spanish coal industry as it questioned the legality of some of the measures it contained. The approval of this package implies that the information submitted by the Spanish government is sufficient and demonstrates that the aid granted complies with EU regulations.

2.2. REGULATORY PROVISIONS IN THE SPANISH ELECTRICITY SECTOR

2.2.1. Fluctuations in the electricity tariff in 2005

Royal Decree 2392/2004 of 30 December established the electricity tariff for 2005, approving integral and access tariff revisions and applying the tariff methodology introduced by Royal Decree 1432/2002 dated 31 December.

This methodology sets limits on variations in the average or reference tariff so that, if the variation is positive, the increase may not exceed 2% unless regulations governing the remuneration of electricity activities are changed. This maximum percentage breaks down as follows: 1.4% for variations in costs in the financial year and 0.6% for revisions of forecasts made in the two preceding years.

The approved increase in the average or reference tariff was 1.71%. Domestic supply tariffs (1.0, 2.0 and 2.0N) increased by 1.74% and the remainder by around 1.61%, with the exception of tariff D applied to distributors covered by Transitional Provision Eleven of Law 54/1997, which rose by 2.82%.

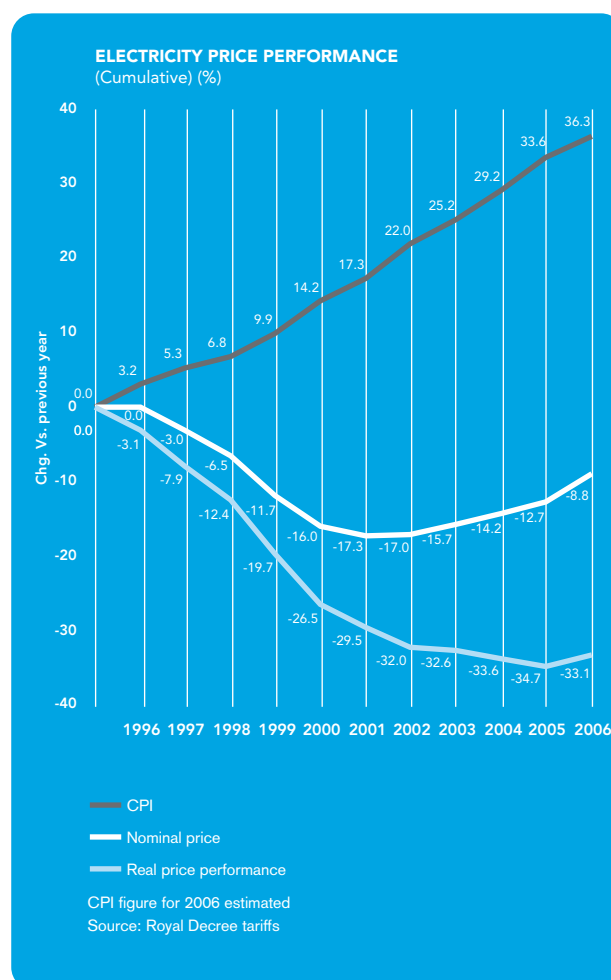
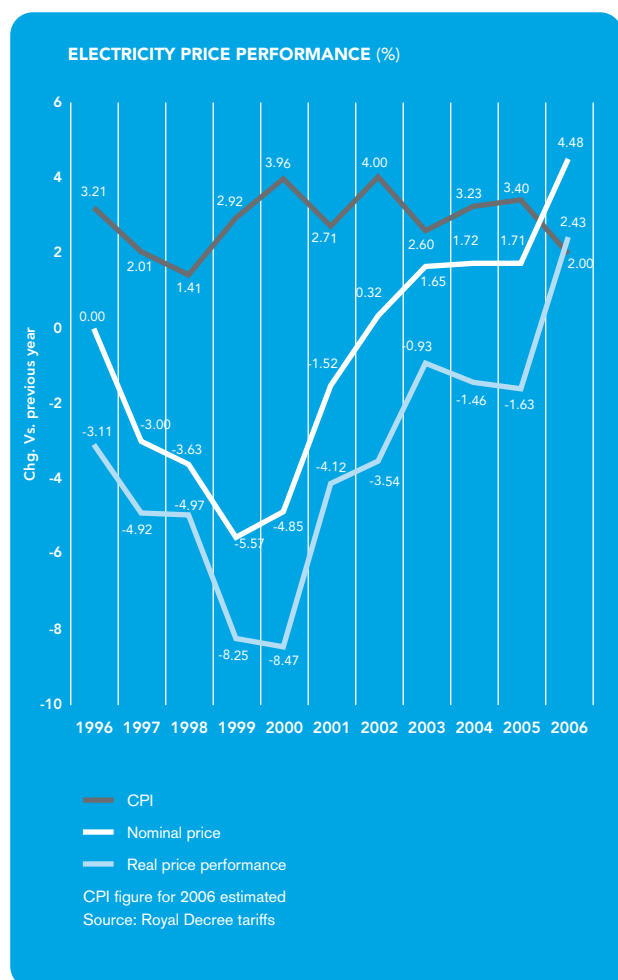
Access tariffs to be applied in the de-regulated market increased by an average of 1.71%.

The 2005 tariff contained Euro 80 million for service quality improvement plans in areas where the quality ratings established for distribution activities were exceeded, and Euro 10 million was earmarked for national demand management programmes.

2.2.2. 2006 electricity tariff

Royal Decree 1556/2005, dated 28 December, establishes the electricity tariff for 2006, applying, for the fourth consecutive year, the tariff methodology mentioned in the previous section.

Approval was given for a 4.48% increase in the average or reference tariff. Domestic supply tariffs (2.0, 2.0 and 2.0N) increased by



4.48% and the remainder by around 5.05%, with the exception of tariff D, applied to distributors covered by Transitional Provision Eleven of Law 54/1997, which increased by 7.43%. Access tariffs applicable in the deregulated market increased by an average of 2.86%.

The increase in the average tariff reflects a maximum variation of 1.4% on account of discounting costs for 2005, -0.6% from correcting parameters for 2005, and 2.48% corresponding to new costs from the implementation of Royal Decree 1747/2003 governing non-mainland systems—Euro 121.1 million—, higher renewables/CHP costs (Euro 158.5 million) deriving from Royal Decree 436/2004 and the 2004-2012 Strategic Plan for Energy Saving and Efficiency (Euro 173.5 million).

The aforementioned Royal Decree also aims to revise the average tariff in July 2006 to cover the settlement deficit for 2005 and to revise the costs included in its calculation.

2.2.3. Island and non-mainland systems

Royal Decree 1747/2003, which was approved on 19 December, 2003, regulates the island and non-mainland systems, expanding the provisions of Electricity Industry Law 54/1997 governing the regulation of these systems. The Royal Decree came into force on 1 January, 2004, and has not yet been fully implemented.

In June 2005 the Ministry of Industry, Tourism and Commerce submitted the draft Ministerial Orders for the development of the above-mentioned Royal Decree to the National Energy Commission (CNE). The CNE issued its report on 13 December and, based on this, the Cabinet, which approved the electricity tariff for 2006, announced that the regulations for these systems would be enacted in the first quarter of 2006.

In this context, Royal Decree 1556/2005 dated 28 December, which establishes the electricity tariff for 2006, also agreed to provide provisional compensation of Euro 406 million for island and other non-mainland electricity systems via basic compensation of Euro 285 million plus an additional Euro 121 million, as indicated in the previous paragraph and stipulated under Royal Decree 1747/2003. There is also an additional Euro 151 million in unsettled transactions in non-mainland systems that are allocated directly to generation.

2.2.4. Competition Transition Costs (CTCs)

The 2004 annual settlement of Competition Transition Costs (CTC) has been postponed until after 1 January 2006 following the enactment of Royal Decree Law 5/2005 dated 11 March, which introduces key reforms to boost productivity.

The procedure for calculating the contribution of agents has also been changed with the aim of covering the possible tariff “deficit”, setting fixed contributions for each company.

2.2.5. White Paper on the regulatory framework reform for electricity production

In November 2004, the Ministry of Industry, Tourism and Commerce commissioned an independent expert, Professor José Ignacio Pérez Arriaga, to draw up a White Paper on electricity generation intended to serve as a basis for the reform of the sector regulatory framework.

The White Paper was presented in July 2005, and although its primary objective was the reform of the production market, it also addresses other issues, such as the tariff calculation and the relationship between distribution and supply. The main problems addressed include deficient regulations, market power in the wholesale market and a deficient tariff calculation mechanism, which means that this does not completely cover costs.

The document indicates that one of the most critical issues is the lack of electricity price credibility on the wholesale market. To solve this problem, it proposes the establishment of regulated price contracts for part of the sector’s generation capacity. Once the market price is credible it proposes the establishment of additive tariffs that will actually allow all system costs to be recovered.

It affirms that the Spanish electricity distribution remuneration system is one of the most deficient in the world and recommends it be modified to adequately remunerate the investment made by companies.

It also proposes changing the current capacity payment mechanism for an instrument which remunerates power plants for the capacity they can effectively contribute to the system at moments of peak demand.

In relation to CTCs, it acknowledges the right to recover investments made during the previous regulatory framework, with the same return recognised at that time. Based on this suggestion it proposes that a recalculation be made to establish those investments pending recovery and suggests different alternatives for their full recovery.

2.2.6. 2005-2010 Renewable Energy Plan

In July the Ministry of Industry, Tourism and Commerce presented the 2005-2010 Renewable Energy Plan, which envisages that these energy sources’ share of the Spanish primary energy market will double, accounting for more than 30% of gross electricity consumption in 2010.

The Plan details the current state of these technologies, their future development and the investment required to meet objectives, which it estimates at more than Euro 23,000 million.

It also emphasises that some energy sources, such as biomass, have not been developed as well as predicted in recent years and forecasts

sharp growth in wind power, where we could see installed capacity of 20,000 MW in 2010.

2.2.7. Economic Revitalisation Plan

On 25 February 2005 the Spanish Cabinet adopted a series of measures aimed at boosting the productivity of the Spanish economy. The following are the main measures affecting electricity and gas:

- Mandates from the Cabinet.
 - Measures facilitating the change of electricity and gas supplier.
 - Studies by the National Energy Commission (CNE) into costs attributable to tariffs in the electricity and gas sectors to update the regulations governing these measures and monitor deficits and self-supply.
 - Guarantee deposit for the construction of generation plants, which will be executed if these facilities are not built.
 - Creation of secondary capacity markets for gas plants.
- Royal Decree Law 5/2005 of 11 March introduces key reforms to boost productivity and improve public procurement. Royal Decree 942/2005 of 29 July modifies certain provisions for hydrocarbons, and Royal Decree 1454/2005 of 2 December modifies certain provisions affecting the electricity sector.
 - Delay in the final settlement for 2004 and modification of the different agents' contributions to the tariff deficit.
 - Change in the financing mechanism for the second nuclear fuel cycle, which was included in the tariff until this new regulation was implemented. Under this Royal Decree Law, the owners of nuclear plants must contribute the amounts necessary to finance these activities according to the amount of energy produced by their plants.
 - Creation of a dominant operator, with a share of more than 10% of the electricity supply and generation markets, fuel production and distribution, or production and supply of natural gas and liquefied petroleum gases. The main operators in the electricity sector are also banned from importing electricity from any country outside the Iberian Electricity Market (MIBEL).
 - Restriction of the role of the Market Operator to the management of the daily and intraday markets. The Systems Operator will administrate the restrictions mechanism, complementary services, rerouting and capacity payments.
 - Modification of various regulatory aspects of the production market to adapt it to the future development of MIBEL.
 - Confirmation of the distribution market's status as a natural monopoly.
 - Extension of capacity payment to include production units governed by bilateral contract.

- Exclusive rights have been granted to authorisations for natural gas distribution facilities, avoiding the construction of redundant or unnecessary facilities in the same area.
- Regulation of changes in natural gas supply, setting the conditions for the return of large customers from the deregulated to the regulated market.

- Reform law 24/2005 dated 18 November, to boost productivity
 - Proposal to extend high-voltage tariffs until 1 January 2010.
 - The CNE will carry out gas sector settlements. Also, it has been proposed that all mandatory plants should meet mandatory and not minimum requirements.
 - Proposal to use biomass as a secondary fuel in thermal plants, with incentives according to their use.

The National Reform Plan speaks of the need for "more competition, improved regulations, more efficient Public Administrations and competitiveness".

2.2.8. Electricity generation market

On 24 June 2005 the General Energy Secretariat approved a resolution which established operating procedures "3.1 Programming of Generation" and "3.2 Resolution of technical constraints", amending Royal Decree 2351/2004 dated 23 December, which in turn modified the procedure for resolving technical constraints. The most innovative aspect of this Royal Decree is the presentation of specific offers for the mechanism for resolving technical restrictions, providing greater clarity and transparency to its operation.

Also, France and Spain presented a joint proposal in 2005 for managing the interconnection capacity between the two countries following a public consultation by their energy sector regulators.

The proposal basically consists of carrying out auctions explicitly for the interconnection capacity, with different timeframes, and creating a mechanism for exchanging energy between the organised markets of both countries that allows as much energy as possible to flow through the interconnection at the times when there is a price difference between them.

Finally, Regulation ITC/4112/2005 was published on 30 December, establishing the applicable regime for the exchange of electricity within the EU and internationally.

2.2.9. The Iberian Electricity Market (MIBEL)

At the XXI Spanish-Portuguese Summit, the Spanish and Portuguese governments decided that the Iberian Electricity Market (MIBEL) would begin operating in July 2006. The Portuguese government undertook to ensure that the Portuguese side of the operation (OMIP: Operador del Mercado Ibérico Polo Português) would begin operating in March 2006. An agreement was also reached to create a

Council of regulators to speed up the regulatory convergence between the two countries.

Spain has already adopted measures to achieve this convergence, modifying existing regulations to provide more equal rights for both countries' operators and making proposals to cover aspects not yet included in regulations, such as the creation of secondary energy markets.

2.3. REGULATORY ISSUES IN THE PORTUGUESE ELECTRICITY SECTOR

Once the mechanism for CMECs (stranded costs) had been approved by the EC in September 2004, the Portuguese government published Decree Law 12/2005 to regulate this compensation on 7 January.

The Decree establishes that every generator with a power purchase agreement or PPA (contracts for wholesale sales to the System Operator, Rede Electrica Nacional) has the right to receive revenue equivalent to that associated to that contract. For these purposes it is assumed that an average daily revenue of Euro 36/MWh will be obtained on the Portuguese market, similar to the amount used in the Spanish electricity system to determine CTCs, and the difference will be made up by the CMEC mechanism.

2.4. REGULATORY ISSUES IN THE ITALIAN ELECTRICITY SECTOR

2.4.1. Deregulation

The Energy Authority, via regulation Delibera 253/04 and its successive modifications, authorised from 1 January the acquisition of energy on the Stock Exchange with hourly offers for wholesale operators and large customers. The market is slated to become fully deregulated by 1 July 2007.

The energy exchange is comprised of the following markets.

- Energy market: previous day's market and adjustment market-appraises system marginal price proposals.
- Ancillary services market-appraises pay-as-bid proposals.
- Capacity market: governed by remuneration criteria established by the authorities.

During the year the System Manager confirmed the remuneration mechanism for operators making their plants available on days that are critical for meeting national demand; this is comprised of a fixed element and a variable element, according to the remuneration the players could expect to receive if they were still operating on the regulated market.

On 1 November 2005 the ownership and management integration process of the National Transmission Network (GRTN) was

concluded with the acquisition by Terna S.p.A. of the programming, development and network services activities of GRTN S.p.A. Since November GRTN has been responsible for the development and promotion of renewable energies and other activities of a public nature.

2.4.2. Competition Transition Costs (CTCs)

On 23 June the Royal Decree was published that granted Endesa Italia S.p.A. the right to collect Euro 169 million in stranded costs from its generation plants and setting out the fee schedule for the approved amounts, which will apply from 2005 to 2009.

2.4.3. National Allocation Plan for Emissions Rights

The European Directive on Emission Trading 2003/87/CE came into force in Italy on 1 January 2005. In December the Italian government approved the country's National Emission Rights Allocation Plan, assigning Endesa Italia S.p.A. a total of 31.9 million tonnes of CO₂ for the 2005-2007 period.

2.5. REGULATORY PROVISIONS IN THE FRENCH ELECTRICITY SECTOR

2.5.1. Energy Orientation Law

In July 2005 the Energy Orientation Law was passed, the aim of which is to define the country's energy targets and policies, complementing current legislation in the terms of demand management, renewable energies and the quality of electricity transmission and distribution networks.

The Law maintains the nuclear option in France and projects include completing the third-generation EPR reactor. In regard to demand management it plans to introduce a system of white certificates to finance energy savings initiatives in the tertiary sector and for private customers.

With regard to renewable energy sources, the Law permits the introduction of a system of guarantees of origin for electricity produced from renewable energy, proposes measures to promote the optimisation of hydro power and establishes regulations that promote wind power, as well as measures to ensure sufficient investment in generation capacity and networks is made to ensure the quality and security of supply.

2.5.2. Changes at EDF, RTE and GDF

As a consequence of the Decree dated 30 August 2005, RTE has become a wholly-owned subsidiary of EDF and a corporation. It is now known as "RTE EDF Transport". This change has been made to

ensure transposition of the current European Directive on the Single Energy Market.

In August 2004 it was established that EDF and GDF, at that time state-owned companies, would become corporations with the possibility that they would be partially privatised, though the State would keep control of at least 70% of their capital and voting rights. The privatisation of GDF –up to 22% of its capital stock– took place in June 2005 and the privatisation of EDF –up to 15% of its capital stock– in November.

2.5.3. National Allocation Plan for Emissions Rights

Decree 2005.190 dated 25 February approved the National CO₂ Allocation Plan for 2005-2007.

The total quota for the French plants subject to this system is 156.51 million tonnes of CO₂/year, of which 9,065 million have been allocated to SNET.

2.6. REGULATORY ISSUES IN THE SPANISH GAS SECTOR

2.6.1. Change in the gas tariff in 2005

The variable component of the gas tariff is revised quarterly if the cost of the raw material varies by more than 2%. In 2005 this resulted in the Energy and Mining Department issuing two Resolutions and Regulation ITC/3321/2005 dated 25 October.

This Regulation establishes a surcharge on the cost of the raw material of Euro 0.0814 /kWh for 6 quarters - from the third week of October until the tariff update corresponding to April 2007 - as a consequence of which projected sales to year-end in the regulated market should exceed the forecasts made at the beginning of the year.

The cost of raw materials feeds through to the energy component of the tariffs, which witnessed the following increases from January to October 2005:

	Regulation ITC/104/2005 of 28 January	Regulation ITC/3321/2005 of 25 October	Sincrease %
GROUP 1 (CONSUMERS P>60BAR)	1.5048	2.0332	35.1
GROUP 2 (CONSUMERS 4<P<60BAR)	1.5837	2.1114	33.3
GROUP 3 (CONSUMERS P<4BAR)	4.1093	4.6343	12.8
GROUP 4 (INTERRUPTIBLE CONSUM. P>60BAR)	1.5011	2.0198	34.6

Prices in c€/kWh.

Regulation ITC/102/2005 of 28 January, setting the remuneration for regulated gas activities, set the remuneration for distribution activity for 2005 at Euro 1,178 million, up 7.9% from 2004. The estimated fixed remuneration for transmission activities in 2005 is Euro 500.7 million, to which Euro 55.2 million must be added for the variable regasification component.

Regulation ITC/4101/2005 was issued on 27 December. This establishes the tariffs for natural gas and manufactured pipeline gases, meter rental and connection rights for consumers connected to networks with a supply pressure equal to or less than 4 bar; Regulation ITC/4100/2005, which establishes the tolls and fees levied for third-party access to gas facilities, and Regulation ITC/4099/2005, which establishes remuneration for regulated gas activities.

2.6.2. Technical Systems Management (TSM)

On 11 October Regulation ITC/3126/2005 dated 5 October was published, ratifying the regulations governing the technical management of the gas system.

The aim of these regulations is to promote the correct technical operation of the gas system and to guarantee the continuity, quality and security of the natural gas supply.

The TSM governs aspects such as coordination procedures for the operation and maintenance of plants supplying the gas transmission system, control procedures for inflows and outflows of gas to and from the national gas system, the use of international gas interconnections, measures to be adopted in the event of emergencies and shortages, procedures to be followed in the event of system imbalances, rerouting, etc.

On 11 October, Regulation ITC/3283/2005 ratified the rules governing the duties of disclosure of those bodies required to maintain minimum stocks of fuel products including liquefied gases from oil and natural gas and inspection facilities for strategic reserves of oil products.

3. REGULATORY FRAMEWORK IN LATIN AMERICA

3.1. CHILE

In May 2005 the Chilean parliament passed the "Ley Corta II" draft law, the primary aim of which is to establish conditions that permit the electricity sector to continue to develop, especially in the area of electricity generation, complementing the provisions made by the "Ley Corta" enacted in 2004.

The Law changes the way in which generation and distribution companies purchase energy, allowing these to carry out long-term tenders of up to 15 years at a fixed price in dollars and indexed over time. This modifies the previous procedure, whereby purchases were made at the price set by the regulator every six months –the so-called “node price”–. Under this new law, existing regulated price contracts will be maintained and, as they end, will be replaced by tender contracts,

New legislation was developed over the course of the year that permitted the content of the tenders and purchase conditions to be defined more precisely.

In November the Spanish National Energy Commission (CNE) issued the definitive conditions that must be followed by consultants between November 2006 and November 2010 to assess remuneration for subtransmission systems. Subtransmission corresponds to medium- or high-voltage transmission networks which exclusively supply consumers in the concession areas of distribution companies and which do not belong to the main transmission system or form part of distribution networks.

3.2. COLOMBIA

In accordance with prevailing legislation, the current remuneration scheme which generation companies receive for the real capacity of their power stations, the so-called “Capacity Charge”, remains valid until November 2006, when a new procedure for calculating the charge is due to come into effect.

In June 2005, the Energy and Gas Regulation Commission (CREG) presented a study with different alternatives for the remuneration of this charge from the aforementioned date to sector players. During the second half of the year it analysed these alternatives with the sector players and, at the end of December, issued a consultation document with a proposed procedure based on one of the alternatives. The approval and details of this methodology will be discussed with sector players in the first half of 2006.

3.3. BRAZIL

In the distribution segment, the annual tariff revision for Coelce was carried out. This resulted in an increase of 23.6% being approved.

However, this increase could not be implemented in its entirety until the Brazilian Supreme Court lifted the preventative measures imposed by the State of Ceará in October 2005. These limited the tariff readjustment to 11.1%, corresponding to the increase in inflation between April 2004 and March 2005.

For Ampla, it has been established that the annual tariff adjustment carried out on 31 December each year should be effected on 15 March from 2006 onwards.

In addition, four tenders took place for existing energy, or energy supplied by power stations that have already been built, and one tender for new energy, from power stations that have yet to be built.

In the second tender for existing energy, Ampla and Coelce purchased energy in 8-year contracts from 2008 and the generation company Cachoeira Dourada, in which Endesa holds a stake, placed energy in the same tender. In the fourth tender for existing energy, Coelce purchased additional energy in 8-year contracts from 2009.

In relation to the electricity interconnection between Brazil and Argentina, the governments of the two countries signed a Framework Agreement in December whereby they undertook to ease regulations during the period they have defined as transitional, which will last until the end of 2008; this will permit the contractual adjustments necessary for sector players to mitigate the impact of the emergency measures adopted in the past.

3.4. PERU

The Ministry of Mining and Energy proposed a draft law in 2005 to modify the Electricity Concessions Law that was submitted to the Peruvian parliament in November 2005 and which will be analysed in the 2006 legislature.

Basically, the law permits purchases of energy between generation and distribution companies (at present entirely made at busbar price, which is set by the regulator each year) to be carried out via energy tenders for up to 15 years.

In addition, it modifies some functions and the composition of the body charged with the dispatch and operation of the system and defines additional mechanisms to further develop the electricity sector, particularly the expansion of the transmission network.

In the distribution segment, Edelnor’s tariff revision –which is carried out every four years– was concluded. Average tariffs, which came into effect in November 2001, remained practically unchanged, increasing according to inflation and other indices until the next review.

3.5. ARGENTINA

Since 2002 Edesur has been negotiating with the Argentine government to find a way and timescale to bring distribution tariffs back into line with levels existing before the enactment of the Emergency Law in 2002.

On 15 June 2005 they reached an agreement that resulted in the signing of a Memorandum of Understanding whereby the government authorised an increase of 23% in Edesur’s value-added distri-

bution (VAD) tariff in November 2005 and an additional 5% for the development of investments. It also authorised an integral tariff revision in August 2006.

Edesur undertook to persuade its shareholders to suspend, and subsequently withdraw, the lawsuit they had filed with CIADI, provided that specific objectives set out in the Agreement are met.

On October 17 operators in Argentina signed a Definitive Agreement with the Energy Ministry for the management and operation of projects to reconfigure the Wholesale Electricity Market (WEM). Under the terms of this agreement, generation companies have undertaken to participate in and contribute their borrowings (Government debt with the generation companies) to the construction of an additional 1,600 MW of capacity in the form of two combined cycle plants, each with a capacity of 800 MW. The plants are slated to start operating in open cycle mode in December 2007 and in combined cycle mode in June 2008 .

In turn, the Argentine government has undertaken to finance the project, to approve the regulatory decrees that will allow the WEM to be progressively re-established and to write off its debts with the generation companies.

The agreement will provide the Argentine electricity system with a larger reserve margin and, therefore, greater security of supply, as well as gradually restoring the regulatory framework.


KEY FIGURES (€ Million)
INCOME AFTER TAX AND MINORITIES
EBIT
FINANCIAL DEBT
EBITDA
DIVIDEND PER SHARE (€)
2001
2002
2003
2004
2005
1,479
1,270
1,312
1,253
3,182
3,175
3,582
3,144
2,846
4,244
25,007
22,747
17,250
18,698*
18,281
5,004
5,278
4,750
4,521
6,020
0.68
0.68
0.70
0.74
2.40**

* Data as at 01.01.05

** Proposal to the General Shareholders Meeting



2005 RESULTS



FINANCIAL DATA

1. KEY FIGURES

Net income

ENDESA reported net income of Euro 3,182 million in 2005, a new record, with an increase of 154 per cent on 2004.

Even stripping out the effects of the capital gains obtained in 2005 from the sale of non core assets, net income would have risen significantly –60% vs. 2004 in like-for-like terms– and would still represent, at Euro 1.841 million, a record figure for the Company.

NET INCOME

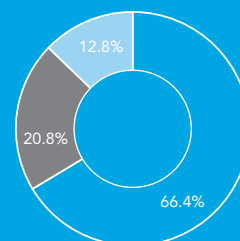
	€ Million	% chg. vs/2004	% of total in 2004	% of total in 2005
Spain and Portugal	1,358	55.9	70.9	42.7
Europe	425	151.5	13.5	13.4
Latino America	262	106.3	10.1	8.2
Other businesses	1,137	1,547.8	5.5	35.7
TOTAL	3,182	154.0	100.0	100.0

All ENDESA's electricity businesses recorded strong net income growth: Spain and Portugal 52.9%, Europe 151.5% and Latin America 106.3%.

The distribution of net income between the different electricity businesses is balanced, confirming the economic sense behind ENDESA's geographical diversification strategy and the Company's multinational character.

NET INCOME BY ELECTRICITY BUSINESS 2005*

Spain & Portugal	1,358 € Mill.	○
Europe	425 € Mill.	●
Latin America	262 € Mill.	○



*Total: 2,045 € mill. (electricity businesses only)

Revenues

The Company's total sales in 2005 grew 29.6% versus 2004 to Euro 17,508 million. Sales growth was greater by value than volume, as prices were raised to offset the increase in costs.

The growth in revenues covered both fuel costs and energy purchases, which were up by 31.4% and 42.9% respectively, and the cost of CO₂ emission rights.

Gross margin, EBITDA and EBIT

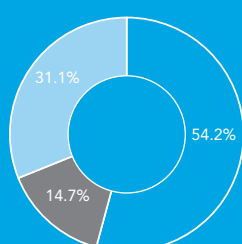
As revenues grew ahead of costs, the company reported significant rises in gross margin (+23.8%), EBITDA (+33.6%) and EBIT (+49.1%).

	Gross margin		EBITDA		EBIT	
	€ Million	% chg. vs/2004	€ Million	% chg. vs/2004	€ Million	% chg. vs/2004
Spain and Portugal	5,202	19.5	3,266	32.1	2,264	58.1
Europe	1,223	47.4	887	65.8	618	67.0
Latino America	2,698	23.8	1,878	23.4	1,376	30.6
Other businesses	3	N/A	(11)	N/A	(14)	N/A
TOTAL	9,126	23.8	6,020	33.2	4,244	49.1

The Company's electricity businesses outside Spain and Portugal accounted for 45.8% of EBITDA and 46.8% of EBIT, underscoring its importance as a multinational player.

EBITDA BY BUSINESS LINE 2005*

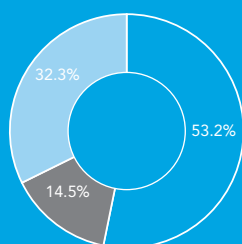
Spain & Portugal	3,266 € Mill.	○
Europe	887 € Mill.	●
Latin America	1,878 € Mill.	●



*Total: 6,031 € mill. (electricity businesses only)

EBIT POR NEGOCIOS EN 2005*

Spain & Portugal	2,264 € Mill.	○
Europe	618 € Mill.	●
Latin America	1,376 € Mill.	●



*Total: 4,258 € mill. (electricity businesses only)

Financial Results

ENDESA reported negative financial results of Euro 1,252 million for 2005, a 9.2% improvement on 2004.

Net financial expenses totalled Euro 1,257 million, 15.6% more than in 2004, impacted by the increase in financial expenses linked to provisions which are the result of accounting changes. Specifically, the fall in long term interest rates between 31 December 2004 and 31 December 2005 meant that pension obligations and redundancy programmes were calculated at a rate of 3.588% vs. the 4% used at the close of 2004, which required a higher provision for this concept (Euro 111 million) booked as a financial expense in 2005.

It should be noted that financial expenses for 2005 include Euro 60 million for the cost of preferred shares, which in 2004, as IAS 32 was not in force, were considered as minorities and therefore the cost was not registered as financial expenses.

Stripping out this effect, financial expenses stood at Euro 1,146 million, 0.1% lower than in 2004.

Cash flow

EBITDA came in at Euro 4,209 million in 2005, a 23.1% increase versus 2004. All the Company's electricity businesses have reported significant growth under this heading.

NET INCOME

	€ Million	% chg. vs/2004
Spain and Portugal	2,669	34.9
Europe	586	14.7
Latino America	1,180	25.3
Other businesses	(226)	N/A
TOTAL	4,209	23.1

Investments

ENDESA invested a total of Euro 3,640 million in 2005. Of this figure, Euro 3,342 million was invested in tangible and intangible assets and the remaining Euro 298 million in financial investments.

73.1% was invested in the Spanish and Portuguese business.

ENDESA is also required to contribute Euro 1,581 million to cover the deficit financing in revenues from regulated activities in Spain.

Debt and gearing

ENDESA's net debt was Euro 18,281 million at 31 December 2005, Euro 417 million lower than at the beginning of the year.

This decrease occurred despite the Euro 920 million increase deriving from the euro's depreciation vis-à-vis other currencies in which ENDESA's debt – and that of its subsidiaries, mainly Enersis – is denominated. Flows generated during the year have therefore allowed debt to be reduced by Euro 1,337 million.

The breakdown of ENDESA'S debt by business line at 31 December 2005 was as follows:

BREAKDOWN BY BUSINESS OF ENDESA'S NET DEBT

€ Million	31-12-05	01-01-05	Change	% chg.
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 EN LATIN AMERICA	6,109	5,350	759	14.2
Energis 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

At 31 December 2005, ENDESA's net assets were Euro 16,327 million, an increase of Euro 3,960 million since the start of the year. This increase lowered ENDESA's gearing to 112% at 31 December 2005, from 151.2% at the start of the year.

Divestments

True to the strategic plan presented to the markets during 2005 the company sold various non-strategic assets (telecommunications business, real estate assets, etc.) for a total of Euro 3,184 million, obtaining net capital gains of Euro 1,341 million.

Disposal of Auna

In 2005, ENDESA sold its 27.7% stake in the Spanish telecoms operator Auna for Euro 2,221 million, obtaining a net capital gain of Euro 1,115 million.

The stake was sold to France Telecom via an agreement signed on 29 July 2005, which was formalised on 8 November 2005 once it had been sanctioned by the European authorities.

On 30 December 2005 an agreement was closed to sell Deutsche Bank the remaining 5.01% stake held by ENDESA in Auna for Euro 378 million. The Company reserves the right to receive 90% of the part of the sale price of Deutsche Bank's first transaction from 8 November 2008 worth more than Euro 361 million, with an annual capitalisation rate of 4.5%. The net capital gain on this sale was Euro 171 million, although this will not be booked until 1Q06 as at 31 December 2005 the period for Auna's shareholders to exercise their pre-emptive subscription rights had not finished.

Other disposals

ENDESA's asset disposal strategy remained unchanged in 2005, generating gross capital gains of Euro 213 million in addition to the gains from the sale of Auna.

The main disposal in 2005 was the sale of 100% of Smartcom to Mexican operator América Móvil for US\$ 505 million (Euro 408

million), producing a gross capital loss of Euro 51 million (after-tax gain of Euro 51 million).

It also continued to dispose of real estate assets, obtaining a total of Euro 122 million, with a gross capital gain of Euro 105 million.

2. RESULTS BY BUSINESS LINE

2.1. ELECTRICITY BUSINESS IN SPAIN AND PORTUGAL

Net income

Net income at this unit was Euro 1,358 million in 2005, an increase of 52.9% on 2004, contributing 40.3% to the Company's overall bottom line.

EBIT

EBIT generated by the electricity business in Spain and Portugal amounted to Euro 2,264 million in 2005, up 58.1% on 2004.

Revenues grew 31.8% to Euro 8,761 million, primarily due to the increase in sales prices to end customers, particularly higher wholesale prices.

The increase in sales was sufficient to offset the sharp rise in fuel costs driven by higher prices and volumes, and the net cost of the CO₂ emission rights deficit.

Low rainfall, higher fuel costs and the cost of funding the CO₂ emission rights deficit led to a 75.1% rise in generation pool prices, as mentioned earlier.

The limited increase in the electricity tariff, just 1.7%, was insufficient to meet the incremental system costs, particularly generation costs, given the pool price levels. This led to a deficit in revenues from regulated activities in the sector of Euro 3,580 million, of which Euro 1,581 million corresponds to ENDESA. The company has booked these stranded costs as a financial asset, since their recovery is guaranteed pursuant to Royal Decree 1556/2005, dated 23 December, which establishes the electricity tariff for 2006. Also, the impact of low rainfall and higher fuel costs was more limited in the case of ENDESA as the Company enjoys a more balanced generation mix than its competitors and has managed to keep rising costs under control thanks to its fuel management policy. In fact, fuel costs at the Company's combined cycle operations are lower than the sector average.

The table below shows the breakdown of EBIT for ENDESA's business in Spain and Portugal.

Revenues

Revenues from this business line were Euro 9,274 million in 2005, up 38% on 2004.

Of this amount, sales accounted for Euro 8,761 million, 31.8% higher than in 2004.

SALES IN SPAIN AND PORTUGAL				
€ Million	2005	2004	Change	% chg.
MAINLAND GENERATION UNDER ORDINARY REGIME				
Sales to deregulated customers	1,487	1,247	240	19.2
Supply to the Spanish market operator (OMEL)	3,012	1,891	1,121	59.3
GENERATION FROM RENEWABLES/CHF	240	121	119	98.3
REGULATED REVENUES FROM DISTRIBUTION	1,602	1,564	38	2.4
NON-MAINLAND GENERATION	1,548	1,004	544	54.2
COAL CTCS	22	75	(53)	-70.7
TECHNOLOGY CTCS	-	118	(118)	-100.0
Supply to deregulated customers outside Spain	220	170	50	29.4
Regulated revenues from gas distribution	39	36	3	8.3
Gas supply	326	160	166	103.8
OTHERS	265	262	3	1.1
TOTAL	8,761	6,648	2,113	31.8

Mainland generation

Growth in ENDESA's sales to the pool

ENDESA's sales to the pool totalled Euro 4,940 million in 2005, 67.1% higher than in 2004 due to an 79.4% rise in the average pool price, including the capacity payment.

The increase in fuel costs, expenses associated with the CO₂ emission rights deficit and lower utilisation rates at hydroelectric plants caused by the drought were the main factors driving this increase.

The average pool price in 2005, including capacity payments, was Euro 60.6 per MWh vs. Euro 33.8 per MWh in 2004.

ENDESA's supply and generation subsidiaries acquired energy from the pool for a total of Euro 1,928 million. These purchases were offset by power sold by the Company to the pool. The markets and time bands were the same in both cases so that the purchase price matched the selling price.

Sales to the pool were offset by purchases made by the supply and generation subsidiary. Therefore, sales to the pool recorded in the consolidated income statement for 2005 totalled Euro 3,012 million.

ENDESA renewable/CHF generation

Revenues from sales of renewable/CHP energy generated by consolidated companies totalled Euro 240 million, 98.3% more than in 2004, driving EBIT from the generation business to Euro 100 million, up 185.7% y-o-y.

Supply to deregulated customers

Sales to deregulated customers in the Spanish market totalled Euro 1,605 million, an increase of 23.6% on 2004. Of this amount, Euro 1,487 million corresponded to the mainland deregulated market and Euro 118 million to the non-mainland market.

Revenues from sales to deregulated European markets other than Spain were Euro 220 million, up 29.4%.

Distribution

Revenues from regulated distribution activities were Euro 1,602 million, up 2.4% vs. 2004. This rise does not do justice to the investment made in operations and maintenance required to increase the continuity and quality of supply.

Consequently, in order to attain this objective that is shared by all the players in the electricity market, and to which end ENDESA is playing a particularly significant role (having invested Euro 1,389 million in 2005) new regulations governing distribution must recognise this effort via adequate remuneration.

ENDESA supplied 64,095 GWh to customers in the regulated Spanish market in 2005. In accordance with IFRS, however, turnover from this business was not booked as revenue, as the distribution business' sole income is the remuneration provided for within the electricity tariff. The rest of the sales merely corresponds to costs incurred and passed on.

Non-mainland generation

Sales from non-mainland systems were Euro 1,548 million, including compensation for stranded costs from these systems.

Royal Decree 1747/2003 governing island and other non-mainland electricity systems recognises that generation in these systems is subject to higher costs than on the mainland, owing to the larger reserve margin required, the extra cost of the specific technologies used as well as higher fuel costs.

The Royal Decree lays down the general principles that must be applied to determine compensation for these specific circumstances.

The exact methodology for quantifying this compensation has still to be developed, although a draft Ministerial Order has been prepared by the Ministry for Industry and sent to the National Energy Commission (CNE) which in turn returned a report on its findings to the Ministry.

ENDESA's 2005 accounts include revenues of Euro 212 million for compensation for stranded costs in non-mainland systems in 2001-2004. ENDESA has booked assets for the amount approved by the CNE in its report to the Ministry for Industry. This figure is less than would be obtained by applying the afore-mentioned draft Ministerial Order .

Also, revenues of Euro 177 million were booked corresponding to additional compensation for the amounts included in the 2005 tariff to cover the stranded costs recorded for that year. This amount was calculated using the same methodology as that used by the CNE in its report for calculating stranded costs for the period 2001-2004.

Technological CTCs and deficit on regulated revenues

As previously mentioned, regulated revenues in 2005 were not sufficient to offset system costs, generating an estimated deficit of Euro 3,580 million. According to the provisions of Royal Decree Law 5/2005 of 11 March, ENDESA must contribute 44.16% of the total amount of this deficit (Euro 1,581 million).

Royal Decree 1556/2005, dated 23 December, which establishes the electricity tariff for 2006, states that ENDESA has the right to fully recover all corresponding stranded costs, without prejudice to the specific repayment method which will be established by a further governmental Royal Decree on 1 July 2006.

For this reason, ENDESA's accounts at 31 December 2005 include a financial asset of Euro 1,581 million to reflect its right to recover its share of the regulated revenue deficit.

ENDESA'S technological CTC revenues totalled Euro 118 million in 2004.

Gas distribution and supply

Revenues from gas sales in the deregulated market in 2005 totalled Euro 326 million, representing growth of 103.8% on 2004. Revenues from regulated gas distribution totalled Euro 39 million, up 8.3% on 2004.

Other operating revenues

Other operating revenues came to Euro 513 million, Euro 442 million more than in 2004.

This line item includes Euro 337 million corresponding to the portion of CO₂ emission rights allocated to ENDESA within the scope of the Spanish emissions National Allocation Plan made in 2005, which are recorded as revenue.

Operating expenses

The breakdown of operating expenses in the Spanish and Portuguese business in 2005 and a comparison with 2004 is provided below:

OPERATING EXPENSE IN SPAIN AND PORTUGAL

€ Million	2005	2004	Change	% chg.
PURCHASES AND SERVICES	4,072	2,367	1,705	72.0
Energy purchases	875	434	441	101.6
Fuel consumption	2,057	1,546	511	33.1
Power transmission expenses	273	189	84	44.4
Other supplies and services	867	198	669	337.9
PERSONNEL EXPENSES	1,041	985	56	5.7
OTHER OPERATING EXPENSES	1,034	1,028	6	0.6
DEPRECIATION AND AMORTISATION	1,002	1,040	(38)	-3.7
TOTAL	7,149	5,420	1,729	31.9

Power purchases

Power purchases in the period rose 101.6% to Euro 875 million. The main component of this line item relates to transactions carried out on the wholesale generation market. This increase in power purchases is linked to the 79.6% rise in the average pool price.

The balance relates to gas purchases to supply deregulated customers, which rose as a result of the 18.7% increase in sales to these customers and the rising price of gas.

Fuel consumption

Fuel consumption amounted to Euro 2,057 million in 2005, an increase of 33.1% vs. 2004. This increase was due to higher fuel-oil production in 2005 (higher unit costs than other technologies) triggered by the drought and to a generalised increase in raw material prices in the international markets.

These higher costs were offset by the Company's proactive fuel purchasing management policy which resulted in below-market purchasing prices.

Other supplies and services

Expenses under this heading totalled Euro 867 million in 2005, up Euro 669 million on 2004.

This increase reflects the booking of expenses of Euro 522 million in connection with rights acquired to cover the CO₂ emissions made in 2005, which totalled 51.9 million tonnes: 40.4 million tonnes for mainland and 11.5 million tonnes for non-mainland emissions.

Expenses for mainland emissions were valued as follows:

- The portion of emissions covered by freely allocated emission rights were valued at the same price at which the revenues were booked, i.e. the market price at the start of 2005.
- For the portion of emissions covered by rights acquired in the market, the expense was recorded at the price paid for these rights.
- The portion of emissions for which ENDESA does not own rights was recorded at the market price of these rights as of 31 December 2005, Euro 21.88 per tonne.

The net effect of revenues and expenses booked in 2005 to cover CO₂ emissions was Euro 185 million, corresponding to an estimated rights deficit of 8.5 million tonnes.

Personnel expenses

As of 31 December 2005, the workforce in Spain and Portugal totalled 12,709, down 1.4% on year-end 2004.

Personnel expenses rose 5.7% to Euro 1,041 million in 2005 compared to 2004. These expenses include Euro 34 million corresponding to estimated costs to be incurred in connection with layoffs contemplated in the 2006-2011 Mining Plan, expected to be one of the main driving forces behind cost cutting in the coming years, and Euro 12 million for employee tariff provisions. Stripping out these items, personnel expenses were virtually unchanged.

Other fixed operating expenses

Other fixed operating expenses were Euro 1,034 million in 2005, a rise of 0.6% on 2004.

We note that other fixed operating costs were lower by 5.7%, or Euro 20 million, in the fourth quarter of 2005 compared to the same period of 2004, in testament to the success of the Efficiency Improvement Plan.

Net financial expenses

Financial expenses in 2005 totalled Euro 609 million, Euro 602 million of which related to a net financial expense. This includes Euro 60 million for the cost of preferred shares, which are classified as debt in the 2005 accounts, and therefore recorded as a financial expense. As regulation IAS 32 was not applied last year, these preferred shares were booked as minority interests and not as financial debt in 2004.

Also, financial expenses in 2005 included Euro 111 million for the lower adjustment rate for redundancy programmes (from 4% to 3.588%).

On a like-for-like basis, net financial expenses fell by Euro 70 million in 2005, i.e. 12.5%.

As of 31 December 2005, net debt in the Spain and Portugal business stood at Euro 11,461 million, up from Euro 9,586 million at the start of the year. This rise can be explained by the Euro 1,581 million paid to finance the tariff deficit, as well as investment in distribution made in the period as part of ENDESA's Quality Excellence Plan.

Equity-accounted income

Equity-accounted income in the electricity business in Spain and Portugal totalled Euro 44 million.

These earnings include, among others, the contribution from Nucleonor (Euro 19 million), income from equity affiliates in Portugal (Euro 9 million) and from the renewables/CHP generation subsidiaries (Euro 15 million).

Asset disposals

In 2005, ENDESA generated gross capital gains of Euro 96 million on disposals of non-core assets from its electricity business in Spain and Portugal.

Among these we highlight the sale of land in Palma de Mallorca where GESA's headquarters was formerly located, and the sale of the *Lepanto* building in Barcelona. These transactions generated gross and net capital gains of Euro 89 million and Euro 75 million, respectively.

Cash flow

Cash flow from operations in the Spanish and Portuguese electricity business totalled Euro 2,669 million in 2005, an increase of 34.9% on 2004.

Investments

Investment in Spain and Portugal reached Euro 2,660 million in 2005, up 31% on the same period last year.

TOTAL INVESTMENTS IN SPAIN AND PORTUGAL

€ Million	2005	2004	% chg.
Tangibles	2,382	1,828	30.3
Intangibles	66	77	-14.3
Financial	212	125	69.6
Consolidated subsidiaries	151	-	N/A
TOTAL INVESTMENTS	2,660	2,030	31.0

89.6% of total investment was investment in tangible assets to develop or enhance electricity generation and distribution facilities to maintain ENDESA's leadership position in the Spanish market, meeting increasing demand while simultaneously enhancing service quality.

CAPEX IN SPAIN AND PORTUGAL

€ Million	2005	2004	% chg.
Generation	943	706	33.6
<i>Ordinary regime</i>	799	526	51.9
<i>Renewables/CHP</i>	144	180	-20.0
Distribution	1,389	1,078	28.9
Others	50	44	13.6
TOTAL	2,382	1,828	30.3

The breakdown of this investment reflects the considerable effort made by the Company to improve its supply quality, with investment in distribution facilities accounting for 58.3% of the total investment in tangible assets in 2005. We also highlight the significant increase in capital expenditure to expand ENDESA's generation capacity. Here the conversion of groups 3 and 4 at the As Pontes plant, the construction of the Colón (400 MW) and As Pontes (800 MW) combined cycle facilities and capacity increases in the renewables activity are particularly noteworthy.

Investment in consolidated subsidiaries relates to the acquisition of Portuguese renewables company, Finerge, during the third quarter for Euro 151 million.

The financing of the regulated business tariff deficit (Euro 1,581 million) is also booked as a financial investment, although it is not included in the figures above. Of this sum, at 31 December 2005 Euro 1,011 million had been paid out.

3. ELECTRICITY BUSINESS IN EUROPE

Net income and EBIT

Net income from the electricity business in Europe totalled Euro 425 million in 2005, an increase of 151.5% on 2004.

EBITDA was Euro 887 million, a rise of 65.8%, and EBIT was Euro 618 million, up 67% on 2004.

Key points to note are the EBIT of Euro 46 million from trading operations. ENDESA is able to conduct these operations risk-free thanks to its generating base in Italy and France.

Endesa Italia key data

The table below shows the key data for Endesa Italia:

ENDESA ITALIA KEY DATA

€ Million	2005	2004	Change	%chg.
REVENUES	2,242	1,680	562	33.5
GROSS MARGIN	853	717	136	19.0
EBITDA	694	510	184	36.1
EBIT	542	382	160	41.9

Revenues reported by the Italian group grew 33.5% due largely to the 17.8% rise in energy sold.

Progress in Endesa Italia's programme for repowering its thermal production plant has allowed it to increase production by using a more efficient mix that replaces fuel-gas output with power generated by CCGTs. The programme has also boosted its capacity to limit the impact of higher fuel prices.

In this way, Endesa Italia's fuel costs increased by just Euro 241 million in 2005, i.e., far less than the increase in revenues due to higher electricity prices triggered by the jump in fuel prices.

Other supplies and services include, among other items, the Euro 21 million estimated cost of CO₂ emissions in 2005, which are not expected to be covered by the emission rights to be distributed by the Italian government as put forward in the proposal sent to the European Union which has yet to be ratified.

Also, on 23 June 2005, a Decree was published in Italy granting Endesa Italia the right to recover Euro 169 million in stranded costs in 2005-2009.

EBITDA AND EBIT IN EUROPE

€ Million	EBITDA			EBIT		
	2005	2004	% chg.	2005	2004	% chg.
Endesa Italia	694	510	36.1	542	382	41.9
Snet ¹	179	43	316.3	62	6	933.3
Trading operations	46	1	N/A	46	1	N/A
Holding and others	(32)	(19)	N/A	(32)	(19)	N/A
TOTAL	887	535	65.8	618	370	67.0

¹ 2004 figures show only the last four months of the year, when ENDESA had control of Snet.

Euro 33 million of the total amount approved was booked as an increase in income in the profit and loss account for 2005 and the remaining Euro 136 million was deferred in various ways depending on the useful life of the plants in question.

Debt

Net debt for ENDESA's electricity business in Europe stood at Euro 1,286 million at 31 December 2005, compared to Euro 2,123 million at the beginning of the year – a reduction of Euro 837 million, or 39.4%.

Financial results showed net financial expenses of Euro 64 million in 2005, a Euro 2 million reduction on 2004.

Company tax

Company tax includes a Euro 134 million tax credit linked to the partial asset revaluation permitted in Italy under the 2006 *Legge Finanziaria*.

Cash flow

Cash flow generated from group operations in Europe stood at Euro 586 million, a rise of 14.7% compared to 2004.

Investments

Investment in this business totalled Euro 308 million in 2005. Of this figure, Euro 283 million corresponded to investment in tangible and intangible assets, Euro 209 million to Endesa Italia and Euro 74 million to Snet.

Financial investments for the year were Euro 25 million including the buyout of minority shareholders in Snet subsidiaries Sodelif and Bialystock for Euro 6 and 4 million respectively. These acquisitions implied the purchase of 15.86% of Sodelif and 4.36% of Bialystock.

Divestments

In 2005, ENDESA's European business made the following divestments:

- The sale of a 5.33% stake in Endesa Italia to ASM Brescia for Euro 159 million, generating a net capital gain of Euro 24 million.
- The sale of Snet's 23.62% stake in the generator Séchilienne-Sidec for Euro 104 million, generating a gross capital gain of Euro 48 million (Euro 26 million after taxes and minorities).
- The sale of ENDESA's 18% stake in the Moroccan water utility Lydec for Euro 26 million, generating a net capital gain of Euro 12 million.



4. ELECTRICITY BUSINESS IN LATIN AMERICA

Net income and EBIT

Net income from this business line was Euro 262 million in 2005, representing a contribution of 8.2% to ENDESA's total net income and a rise of 106.3% on 2004. EBITDA was Euro 1,878 million, up 23.4%, and EBIT was Euro 1,376 million, an increase of 30.6% on 2004.

EBITDA AND EBIT IN LATIN AMERICA						
€ Million	EBITDA			EBIT		
	2005	2004	%chg.	2005	2004	%chg.
Generation and transmission	1,037	914	13.5	768	698	10.0
Distribution	898	663	35.4	677	472	43.4
Other	(57)	(55)	N/A	(69)	(116)	N/A
TOTAL	1,878	1,522	23.4	1,376	1,054	30.6

The table below shows the breakdown for each business line by the countries in which ENDESA operates through fully consolidated subsidiaries:

BREAKDOWN OF EBITDA AND EBIT IN LATIN AMERICA BY BUSINESS LINE AND COUNTRY						
€ Million	EBITDA			EBIT		
	2005	2004	%chg.	2005	2004	%chg.
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

Wider generation and distribution margins

Growth in demand and tighter reserve margins caused the unit margin of generation companies to increase by 9.9% on the previous year, to US\$21.1 per MWh produced.

We note that the increase was achieved despite the rise in fuel prices and gas restrictions affecting Chile and Argentina. In the distribution business, operating margins were considerably boosted by improved pass-through of generation costs achieved in tariff revisions in the course of the year, coupled with these companies' operating efficien-

cy. The distribution value (DVA) was US\$ 30.3 per MWh distributed, up 28.9%.

Generation and transmission

Chile. In 2005, Chilean generation was impacted by the gas supply problems affecting the thermal plants, which required substituting gas with more expensive liquid fuels.

For ENDESA's subsidiaries, however, this was more than offset by the 11.7% increase in energy generated from hydro plants thanks to the Ralco plant joining the grid in September 2004 and to increases in node and derivatives prices deriving from the change in the power source prompted by the gas supply crisis. This led EBIT to rise 38.5% vs. 2004 to Euro 248 million.

Colombia. Although power output in 2005 was virtually unchanged on 2004, the positive impact of the strong Colombian peso versus the Euro allowed the Colombian subsidiary to report EBITDA of Euro 232 million and EBIT of 183 million, increases of 5.5% and 2.8% respectively.

Brazil (Generation). Electricity generation in Brazil fell 13.8% due to the gas supply problems affecting Endesa Fortaleza. However, favourable exchange rate movements, together with positive price trends and lower fuel consumption, underpinned a 30.6% rise in EBITDA and a 32.1% jump in EBIT to Euro 128 million and Euro 111 million, respectively.

Brazil (Transmission). The difficulties in finding available electricity in Argentina to export to Brazil due to the above-mentioned gas supply restrictions had a negative impact on results at this interconnection, leading to EBIT of Euro 38 million, Euro 16 million lower than in 2004.

Peru. Generation sales were Euro 299 million in 2005, 3.5% more than in 2004. The effect of the lower prices seen due to higher rainfall levels was offset by a 21.9% rise in power generated.

Higher hydro output drove a Euro 35 million reduction in the cost of fuel, contributing to a Euro 27 million increase in EBITDA and Euro 24 million rise in EBIT, to Euro 154 million and Euro 114 million, respectively.

Argentina. The gas supply problems mentioned above pushed up fuel costs considerably (by 48.5%), as generators were forced to fall back on more expensive liquid fuels. As a result, although volume sales of electricity rose by 1.7%, margins narrowed.

This meant that EBITDA and EBIT fell by 24.4% and 34.7% to Euro 93 million and Euro 66 million, respectively.

Distribution

Chile. EBITDA and EBIT from distribution were up by 14.3% on 2004. These increases reflect the fact that growth in sales volume to meet

higher demand offset the squeeze on margins caused by the most recent tariff revision.

Colombia. EBITDA and EBIT from distribution were up by 14.6% and 18.7% respectively. These rises were due to a 10.5% increase in sales (to Euro 400 million), enough to cover the higher costs of buying electricity and a stronger Colombian peso versus the euro.

Brazil. Sales in the Brazilian distribution business stood at Euro 1,319 million in 2005, a 53.7% increase over 2004. This increase reflects margin expansion due enhanced generation price pass-through, and, to a lesser extent, higher volumes of energy sold.

Also, higher revenues from electricity sales more than covered cost increases, boosting EBITDA by 126.9% compared to 2004 levels to Euro 329 million and EBIT by 172.9% to Euro 262 million.

Peru. EBITDA from distribution in Peru came to Euro 74 million in 2005, a 7.2% increase on 2004. EBIT grew by Euro 4 million to Euro 44 million, up 10%.

This was due to a Euro 36 million rise in sales versus 2004 to Euro 298 million, compared to an increase of just Euro 22 million in electricity costs.

Argentina. EBITDA and EBIT from the Argentine distribution business were down by Euro 8 million and Euro 12 million, respectively, on 2004. This was largely because the 2004 figures included Euro 10 million corresponding to the compensation received from Alstom as a result of the Azopardo supply incident.

The rest of the fall was due to larger energy purchases and fixed costs, which were not offset by higher sales. This situation could change going forward after the upcoming tariff review.

Financial results

Financial results at the Latin American business in 2005 totalled Euro 524 million, Euro 16 million lower than in 2004.

Foreign exchange effects resulted in a switch from losses of Euro 87 million in 2004 to gains of Euro 16 million in 2005, a difference of Euro 103 million.

Net financial expenses totalled Euro 540 million, Euro 87 million or 19.2% higher than in 2004.

The rise was due to the trend marked by the euro against Latin American currencies and the dollar, which drove up debt in these currencies measured in euro terms and hence increased interest payments on foreign-denominated borrowings.

Net debt at ENDESA's Latin American business stood at Euro 6,109 million at 31 December 2005, up by Euro 759 million since the start of the year.

This increase in net debt was fundamentally due to the depreciation of the euro against the currencies in which Latam subsidiaries hold their debt, which has risen by Euro 912 million as a result.

Stripping out currency effects, debt in the Latin American business would have fallen by Euro 153 million, after dividends and capital reductions distributed to Group and minority shareholders totalling Euro 533 million.

Cash flow

Cash flow generated by the group's business in Latin America totalled Euro 1,180 million in 2005, an increase of 25.3% with respect to 2004.

Investments

Investment in this business line stood at Euro 670 million in 2005. Of this amount, Euro 600 million was invested in tangible assets as shown in the table below:

CAPITAL INVESTMENT IN LATIN AMERICA			
€ Million	2005	2004	% chg.
Generation	166	168	-1.2
Distribution and transmission	390	251	55.4
Other	44	59	-25.4
TOTAL	600	478	25.5

In the fourth quarter of 2005, ENDESA sold its 40% holding in Dominican Republic's CEPM for Euro 20 million, obtaining a gross capital gain of Euro 7 million (Euro 4 million after tax).

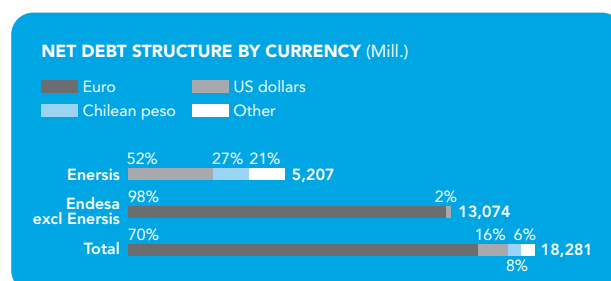
5. FINANCIAL MANAGEMENT IN 2005

In 2005, ENDESA took advantage of the propitious financial markets to refinance a significant part of its debt, improving both the cost and terms, obtaining an average life for its debt of 5.4 years.

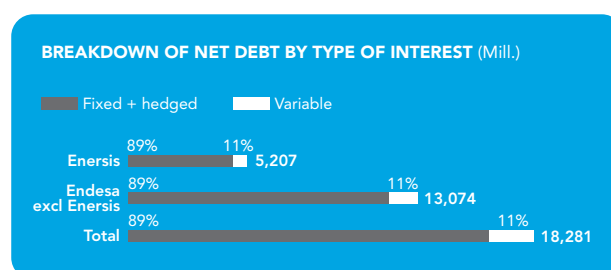
Endesa S.A. and its direct subsidiaries excluding Enersis have effected long-term operations on the banking market worth Euro 3,501 million. Endesa S.A. renegotiated long term credit lines worth Euro 3,758 million. The average life of the debt held by this group of companies stood at 5.3 years in December 2005.

Also, Enersis' subsidiaries took advantage of the liquidity and terms being offered in its local markets against a backdrop of increased macroeconomic stability. The average life of its debt stood at 5.5 years, which is particularly noteworthy when we bear in mind that 48% of its net debt is held in local currencies, whose markets have traditionally encountered difficulties to offer long term financing.

Additionally, throughout the year the group employed an active financial risk management policy. At the close of the year, debt held in euros accounted for 70% of ENDESA's consolidated net debt, while debt held in dollars accounted for 16%. The remaining 14% was debt taken out in Latam currencies, principally the Chilean peso (8%).



At the end of the year, 89% of ENDESA's debt was either fixed rate or hedged, with the remaining 11% at variable rate. This significantly reduces the possibility of financial expenses being made volatile in a context of rising interest rates.



5.1. MAIN FACTORS AFFECTING FINANCIAL ADMINISTRATION

In the second half of the year ST dollar rates rebounded, and rates in the eurozone followed suit at the end of the year.

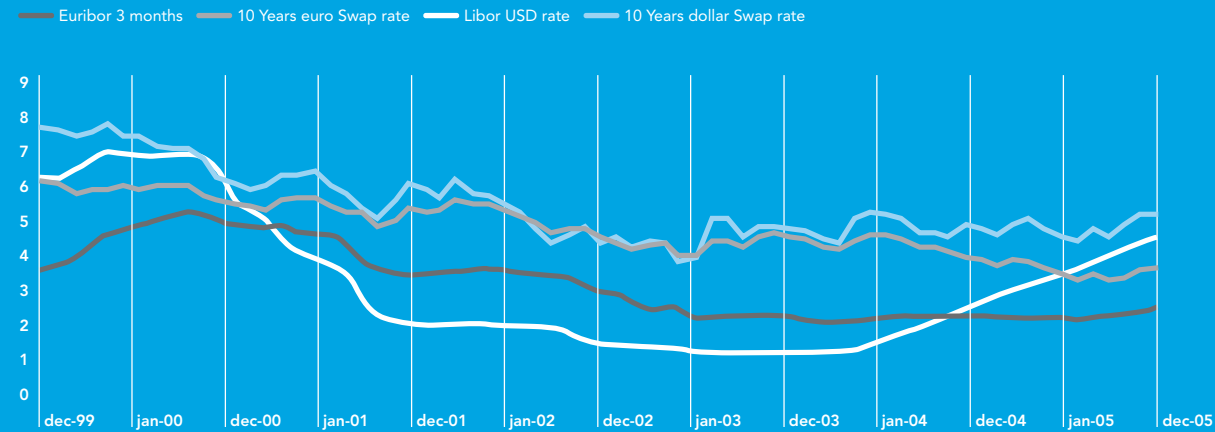
The 10Y interest swap rate on the euro and the dollar both remained stable throughout the year, although the former hit a record low on 22 September. From there it rebounded slightly to 3.46% on 30 December 2005. The 10Y interest swap rate on the US dollar closed the year at 4.97%.

With regard to the parity between the euro and ENDESA's other main currencies we highlight the 15% depreciation.

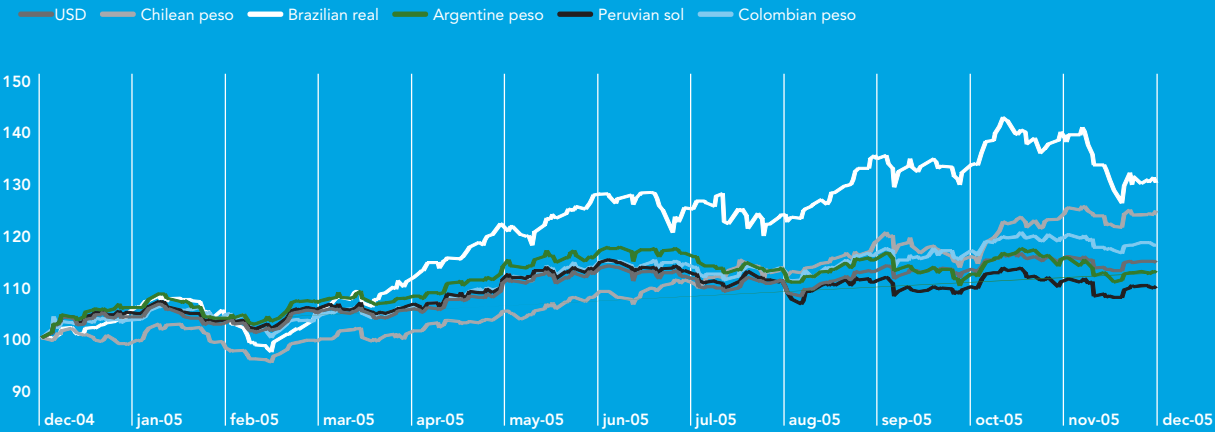
Overall, the currencies of those Latin American countries where ENDESA is present also appreciated against the Euro. We highlight the performance of the Chilean peso (26% appreciation) and the Brazilian real (31%).

As a result of the appreciation of these currencies against the euro, ENDESA's debt in euros increased by Euro 920 million.

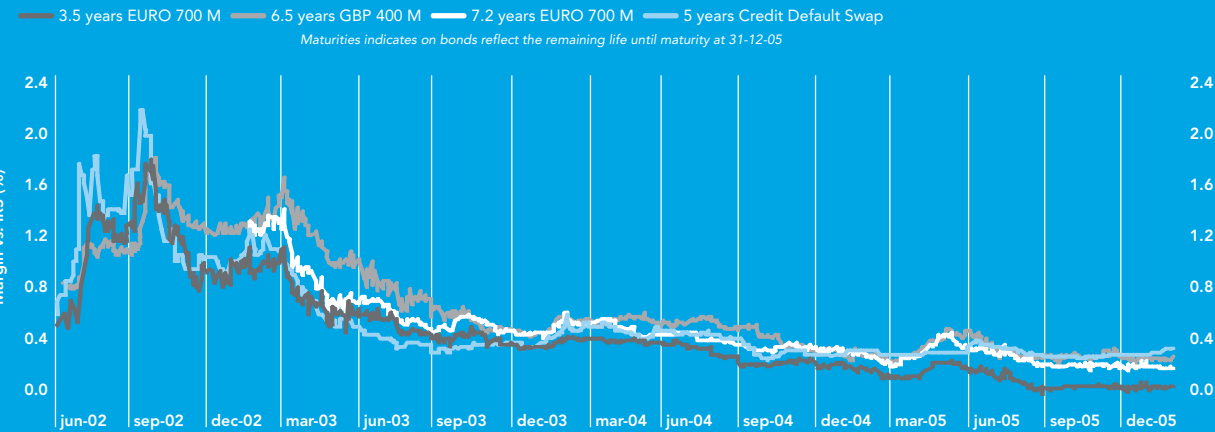
INTEREST RATE MOVEMENTS OVER THE PAST FEW YEARS (in %)

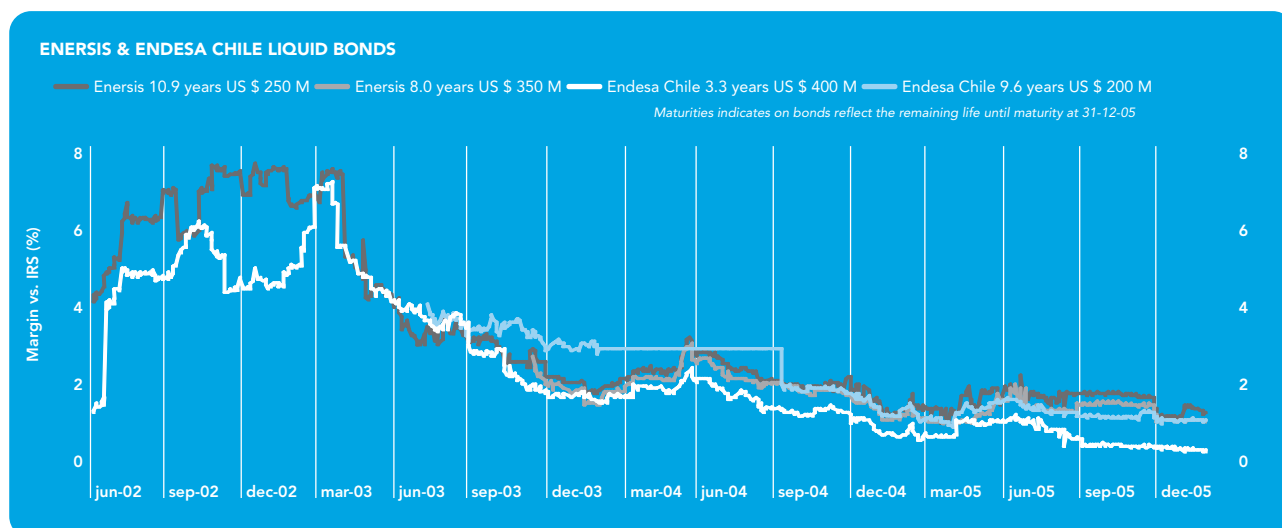


VARIATION OF LATIN AMERICAN CURRENCIES AND THE USD. VS. THE EURO IN 2005



ENDESA LIQUID BONDS





5.2. PERFORMANCE OF CREDIT MARGINS IN THE SECONDARY MARKET

Credit margins at Endesa España continued to tighten on the secondary bond market during 2005, while the credit default swap (CDS) held firm at December 2004 levels.

At Enersis and Endesa Chile, the performance of the most liquid bonds on the secondary market has been largely stable.

5.3. FINANCIAL DEBT AND AVERAGE COST OF DEBT

ENDESA's net financial debt was Euro 18,281 million at 31 December 2005, a decline of Euro 417 million on the figure at 1 January 2005. Of this total, Endesa S.A and its direct subsidiaries excluding Enersis accounted for Euro 13,074 million while debt from Enersis and its subsidiaries stood at Euro 5,207 million.

The average cost of ENDESA's total debt was 5.46% in 2005, in line with the average cost of 5.48% in 2004, in a context of rising interest rates.

The average cost of debt at Endesa S.A. and its direct subsidiaries, excluding Enersis, was 4.05% in 2005, substantially lower than the figure of 4.29% seen in 2004.

The average cost of debt at Enersis was 9.37%, higher than the figure of 8.79% in 2004. This higher cost of debt was due mainly to the large percentage of debt held in Chilean pesos and other Latam currencies (48%) and the group's strategy of holding a large volume of fixed rate (89%) and long term debt.

Financing strategy

Although ENDESA usually taps the capital markets to cover its financing needs, in 2005 the group took advantage of the opportunities

arising in the banking markets during the year - which featured an enormous amount of liquidity. In addition to offering more competitive terms and financial costs, these markets' products are highly flexible.

Within the field of financial risk we highlight the following operations:

- In April, Endesa S.A took out a syndicated loan for Euro 2,000 million with 38 entities and is structured in two tranches: a Euro 500 million loan and Euro 1,500 million in credit.
- Both tranches have a maturity of 5 years with a single repayment on maturity and an options to extend each maturity for a further year during both the first and second year.
- In April Endesa S.A. renegotiated its long-term credit lines for an aggregate amount of Euro 3,758 million, extending the maturities from 3.5 to 5 years, with the option of extending them for a further two years via options executable by the banks in a similar way as the operation described above.
- To finance the investments in the distribution business envisaged for 2005-2006, Endesa S.A. took out a Euro 600 million loan with the European Investment Bank in September.
- At the end of the year Euro 300 million had already been formalised while the remaining Euro 300 million will be formalised in the first quarter of 2006. The total average life of the operation will be 7.6 years.
- In July, Proyectos Eólicos Valencianos S. A., (55% owned by ENDESA) obtained project financing of Euro 331 million for the development and start up of wind farms in the province of Valencia. The financing took the shape of a syndicated loan maturing at 18 years.
- Commercial paper was issued as part of the "Euro Commercial Paper" programme and domestic issues. The outstanding balance was Euro 988 million and Euro 128 million at the year end respectively
- Etevensa, Endesa Internacional's Peruvian subsidiary, closed a USD 135 million transaction, subsequently increased to USD 170

million to finance the closure of the combined cycle of one of the plant's groups and refinance debt. The maturity is now in 2013.

In March, Endesa Italia took out a syndicated loan for Euro 700 million. This has a maturity of 5 years with a single repayment on maturity and options to extend the maturity for a further year after both the first and second year.

Lastly, we list the main financial operations made by Enersis in 2005 through its subsidiaries:

- In Brazil, Ampla signed a 5Y loan for 45 million Brazilian reales in April and in June took out another with the Banco Nacional de Desarrollo (BNDES) for 165 million maturing in 6 years.
- In Argentina, Costanera took out a syndicated loan of USD 30 million in September with a maximum maturity of 4.5 years and Edesur refinanced another USD 15 million loan at 3 years.
- In Colombia, Emgesa made a bond placement for 210,000 million Colombian pesos at 10 years.
- In Peru between June and November, Edegel issued debt in local currency for a sum of 105 million soles at 3, 4 and 5 years – and placed USD 20 million at 7Y on the local capital market.

Liquidity position

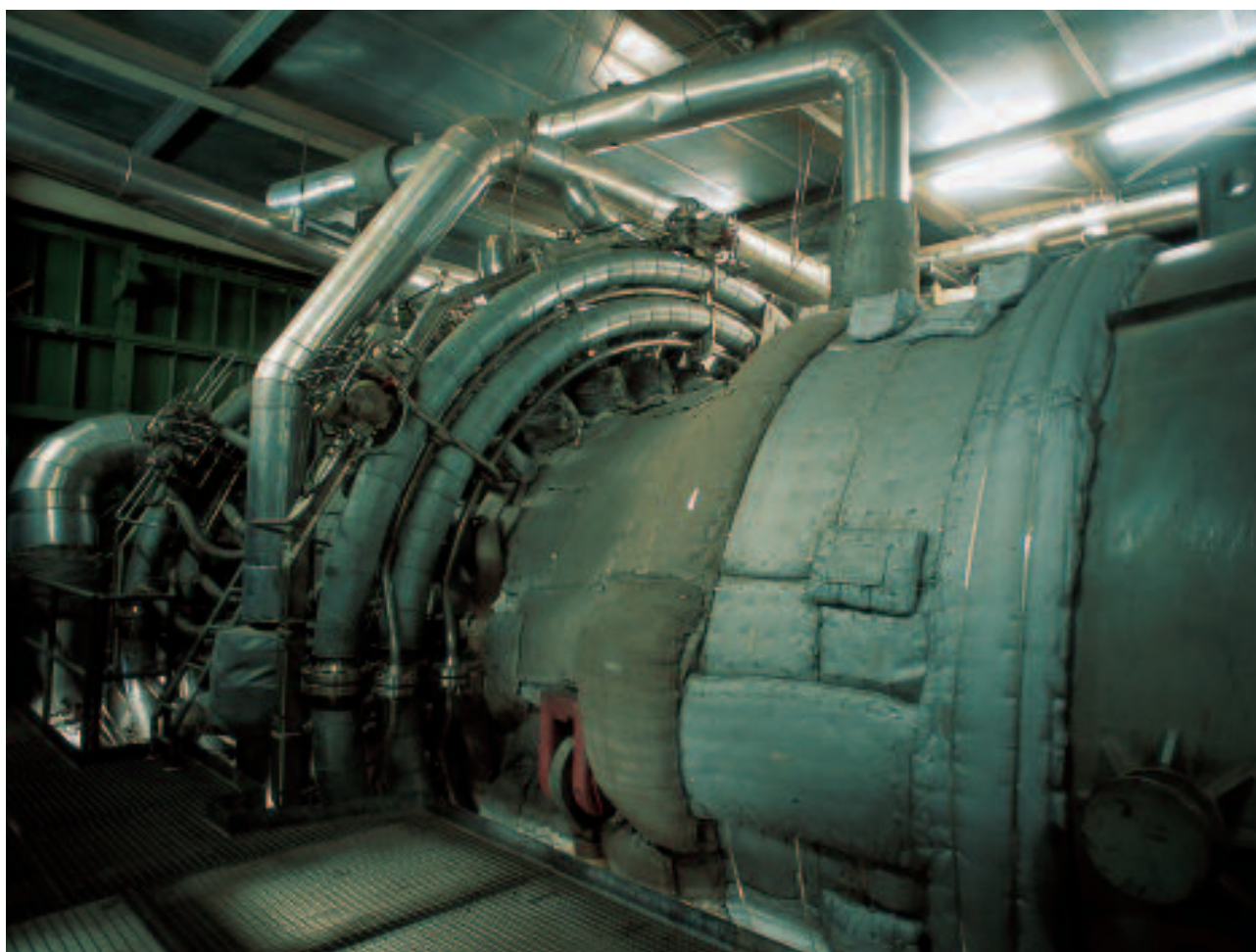
At December 31 2005 the liquidity of ENDESA and its direct subsidiaries, excluding Enersis, was Euro 6,338 million, of which Euro 4,266 million corresponded to unused credit lines. The significantly reduces refinancing risk for this group of companies, covering debt maturities for the next 39 months.

At the same date Enersis had a liquidity position of Euro 863 million, with an available credit line of Euro 321 million, and cash of Euro 542 million, covering debt maturities for the next 10 months.

5.4. CREDIT RATINGS

As a result of Gas Natural's take over bid for ENDESA, the agencies Standard & Poor's and Fitch Ratings decided to place ENDESA's credit rating under review for a possible downgrade, while Moody's changed its rating outlook from stable to negative.

As a result, at 31 December 2005, ENDESA's debt has a long-term credit ratings of A from Standard & Poor's and Fitch, under review for a possible downgrade, and A3 from Moody's, with a negative outlook.



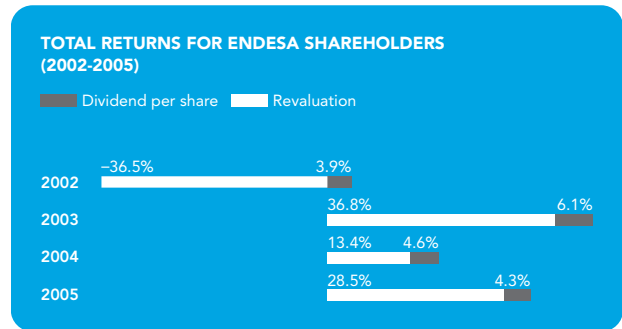


SHARE PRICE PERFORMANCE AND INVESTOR RELATIONS

1. TOTAL RETURNS FOR ENDESA SHAREHOLDERS

ENDESA shareholders obtained a total return of 32.8% in 2005, thanks to a 28.5% rise in the share price and the payment of a Euro 0.7382 per share dividend, which added another 4.3% to their returns.

In all, shareholder returns in 2005 were 14.8 percentage points higher than in 2004.



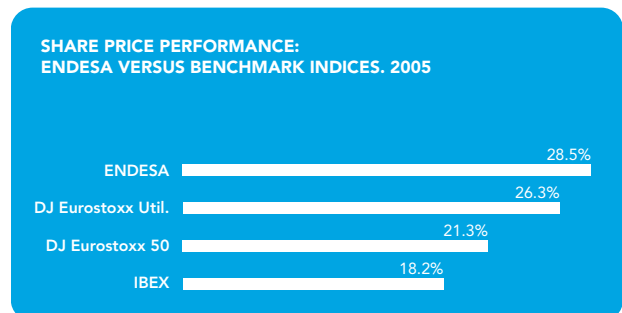
1.1. ENDESA ON THE STOCK MARKET

As in the previous two years, ENDESA delivered a strong share price performance in 2005, posting a 28.5% gain.

Among the factors driving up the share price, we would highlight the following:

- The overall rises marked by international stock exchanges in general and Europe in particular.
- Good performance of ENDESA's main financial indicators.
- The Company success in achieving the goals set out in its strategy, underscored by the strong performance of its various business lines.
- Greater recognition by investors of the value of the Company's assets than in the past, deriving from the unsolicited takeover bid launched by Gas Natural and the greater visibility of the attractive Strategic Plan being carried out.

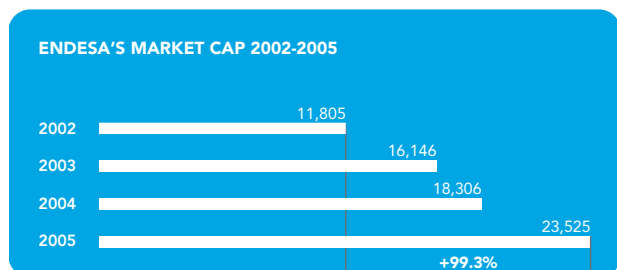
As in both 2003 and 2004, ENDESA easily outperformed the benchmark indices in 2005, both market (the Ibex-35 rose 18.2% and the



EuroStoxx 50 by 21.3%) and sector (the EuroStoxx Utilities index advanced 26.3%) indices.

2005 marked the third consecutive year of gains by ENDESA, extending the positive run begun in 2003 following a three-year stock market crisis (2000-2002).

In the 2003-2005, the Company's value by market cap virtually doubled, increasing by 99.3%.



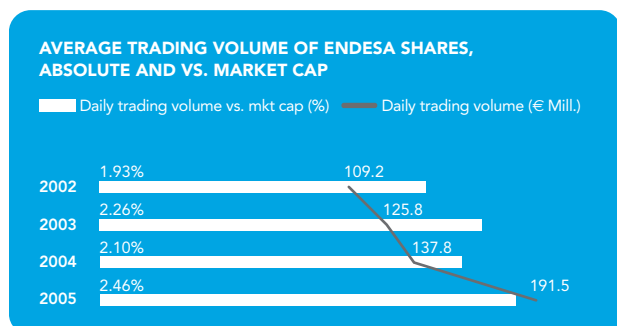
The increase in market cap and the stock's outperformance has resulted in ENDESA's weighting in the various indices increasing.

ENDESA'S WEIGHTING IN THE MAIN BENCHMARK INDICES

	Index weighting in 2004 (%)	Index weighting in 2005 (%)
Ibex35	5.12	5.71
Eurotop100	0.51	0.55
DJ EuroStoxx 50	1.04	1.15
DJ EuroStoxx Utilities	9.06	8.66
DJ Stoxx 600 Utilities	0.32	0.35

1.2. LIQUIDITY

ENDESA shares have high stock market liquidity. An average of slightly over 10 million ENDESA shares changed hands daily in 2005, equivalent to 2.5x its market cap, up from 2.1x in 2004. Total trading volumes of ENDESA shares stood at Euro 49.03 billion, 42% more than in 2004.

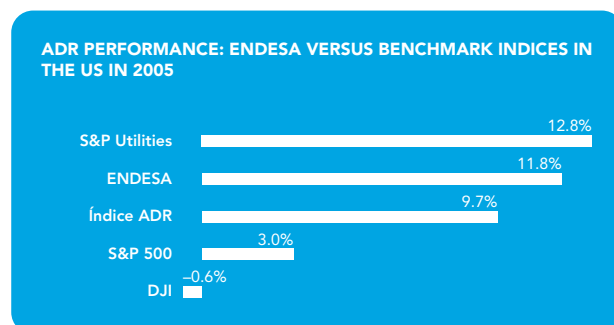


The free float at the end of the year stood at 91%, far higher than the 61.2% average for the other constituents of the Dow Jones EuroStoxx Utilities index. According to this index, ENDESA has the 3rd highest free float of any utility in Europe, trailing only E.ON and Suez.

2. ENDESA ON THE NYSE

ENDESA's ADR (American Depositary Receipt) gained 11.8% on the New York Stock Exchange in 2005 to US\$26.01, its highest level since 2000.

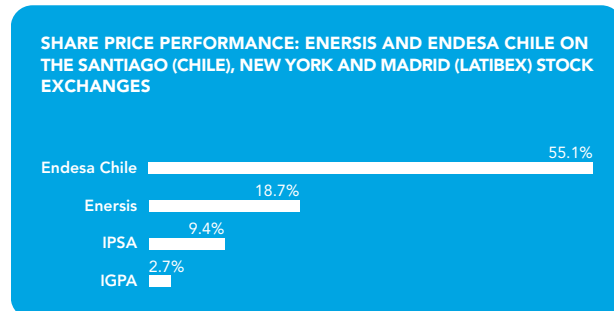
This was better than other foreign companies listed on the US markets (the Global ADR Index rose 9.7%, more than 2 percentage points less) and broadly in line with the sector performance (the S&P Utilities Index rose 12.8%).



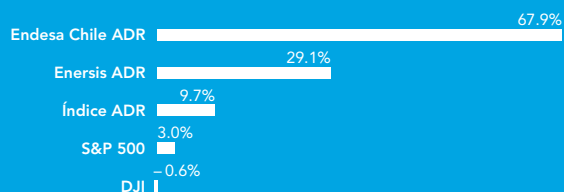
3. ENERSIS AND ENDESA CHILE SHARE PRICE PERFORMANCE

In 2005, Enersis and Endesa Chile extended their 2004 bullish runs on the Santiago (Chile), New York and Madrid (Latibex) stock exchanges.

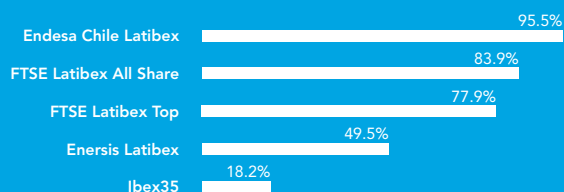
On the Santiago de Chile Stock Exchange, Enersis' share price rose 18.7% to 111.19 pesos and Endesa Chile's by 55.1% to 519.5 pesos.



On the New York Stock Exchange, Enersis' ADRs rose 29.1% to US\$10.99 and Endesa Chile's by 67.9% to US\$30.62. Both companies far outperformed the benchmark indices.

ADR PERFORMANCE: ENERSIS AND ENDESA CHILE ON THE NYSE VERSUS BENCHMARK INDICES IN 2005


Both companies also rose sharply on the Latibex exchange in 2005. Enersis rose 49.5% to Euro 9.3 per share, while Endesa Chile soared 95.5% to Euro 26 per share.

SHARE PRICE PERFORMANCE: ENERSIS AND ENDESA CHILE ON THE LATIBEX VERSUS BENCHMARK INDICES IN 2005


The main factors driving the share price performance of ENDESA's Chilean subsidiaries were:

- A propitious macro environment and currency stability.
- Skilled management of the regulatory environment by both companies.
- Further balance-sheet strengthening.
- Decrease in financial expenses and de-gearing, which prompted upgrades in both their debt ratings by the rating agencies.
- Increased shareholder returns via dividends.

SHARE PRICE DATA FOR ENDESA, ENERSIS AND ENDESA CHILE IN 2005

	High	Low	Average	Last	% Annual chg.	Average trading volume (shares)
CONTINUOUS MARKET						
ENDESA (€/share)	22.78	16.63	18.92	22.22	28.51	2,602,871,497
CHILE STOCK EXCHANGE						
ENERSIS (pesos/share)	128.83	87.5	110.39	111.19	18.72	7,514,799,089
Endesa Chile (pesos/share)	552.64	316.99	454.08	519.50	55.08	1,295,318,887
NYSE						
ENDESA (US\$/ADR)	27.01	21.63	23.46	26.01	11.77	28,068,500
Enersis (US\$/ADR)	12.02	7.46	9.92	10.99	29.14	111,425,600
Endesa Chile (US\$/ADR)	31.90	16.31	24.60	30.62	67.87	25,582,100

4. DIVIDENDS

4.1. DIVIDEND APPROVED AT THE 2005 GENERAL SHAREHOLDERS' MEETING

ENDESA fulfilled its commitment to increase shareholder returns via dividends in 2005.

At the General Shareholders' Meeting of 27 May 2005, approval was given for the payment of a total gross dividend charged against 2004 earnings of Euro 0.7382 per share, a 5% increase on the previous year.

4.2. DIVIDEND PROPOSAL

The dividend policy contained in the Strategic Plan presented to the markets on 3 October 2005 entitled "ENDESA: Stronger business, greater value" can be summarised as follows:

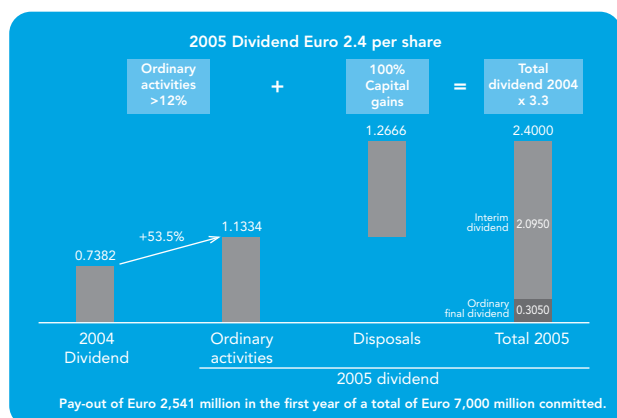
- A CAGR for ordinary dividends of 12%, i.e., in line with expectations for bottom-line net profit growth.
- Distribution of 100% of capital gains generated on disposals of non-core assets.

According to the Company's stated targets, if approved by the shareholders this policy would entail the pay-out of over Euro 7 billion in dividends over a five-year period.

As a show of its commitment to this policy and its viability, the Board of Directors has decided to propose the payment of a total gross dividend of Euro 2.4 per share charged against 2005 earnings at the General Shareholder Meeting, implying a total pay-out of Euro 2,541 million.

This dividend is the sum of the Euro 0.305 per share interim dividend paid on 2 January 2006, an ordinary final dividend of Euro 0.8284 per share and the pay-out of Euro 1.2666 per share of the total net capital gains obtained from the sale of non-core assets worth Euro 1,341 million in 2005.

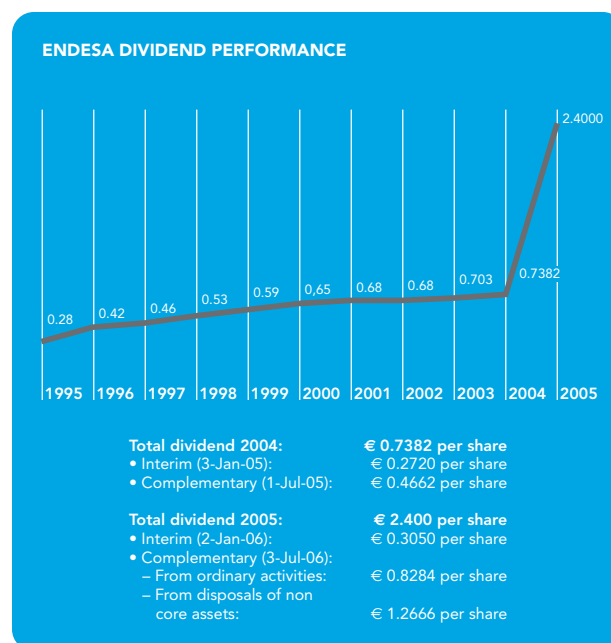
This represents a total pay-out of net income for the year of 79.9%. Stripping out these net capital gains, the pay-out is 65.2%.



The proposed dividend excluding the payment from net capital gains on non-core asset disposals is 53.5% higher than the dividend paid and charged to 2004 earnings.

The ordinary final Euro 0.8284 per share dividend plus the Euro 1.2666 per share derived from the net capital gains, which together amount to Euro 2.095 per share, will be paid on 3 July 2006.

If the Euro 2.4 per share dividend proposed by the Board of Directors is approved by shareholders, ENDESA shareholders will obtain a 10.8% return on their investment solely via dividends in 2006.



5. INVESTOR RELATIONS AND SHAREHOLDERS' OFFICE

5.1. INVESTOR RELATIONS

ENDESA maintains ongoing relationships with its shareholders, both private and institutional investors, as well as with the leading stock market analysts. All these shareholder groups are provided with a constant flow of detailed information on the Company's performance. For this ENDESA has an Investor Relations Department with offices in Madrid and New York and a Shareholders' Office in Madrid.

Among the activities of the Investor Relations Department in 2005, we would highlight the two roadshows (visits to international institutional investors by ENDESA managers) in 12 countries, entailing 175 meetings, at which the Company contacted around 40% of its shareholders.

The department also maintained ongoing contacts in Spain, the rest of Europe and the US, holding 120 meetings with investors. It held six public presentations for analysts and investors, four on quarterly results, one explaining the transition to International Financial Reporting Standards (IFRS) and one explaining ENDESA's stance regarding Gas Natural's takeover bid. An average of 390 people attended these presentations, 40 in person, 70 via conference call and 280 through webcast via internet.

To illustrate ENDESA's commitment to providing the markets detailed information about its businesses, each year the Company arranges for analysts and investors to visit its power plants. In 2005, a visit was made to the As Pontes power plant by 49 analysts and investors,

during which four presentations were given on issues related to the generation business and regulatory matters.

We would also point out that 40 financial institutions carry out regular research on ENDESA, making it one of the most closely followed electric utilities in the world by the market. In 2005, analysts from these institutions wrote more than 200 reports on the Company. Of these, 26% rated ENDESA a "Buy" and 49% "Hold/Buy" at the end of the year.

ENDESA's endeavour in the field of investors relations has been publicly recognised by a substantial number of specialised institutions. In 2005, ENDESA ranked 4th among European electric utilities in



investor relations and 4th among Spanish companies in all industries based on a survey of analysts and investors conducted by the renowned *Institutional Investor* magazine .

ENDESA was also singled out by *IR Magazine* as the company that has best transmitted the transition to IFRS. At the 7th edition of the magazine's Investor Relations Awards, ENDESA's commitment to total transparency and accessibility in respect of the financial community was underscored. These awards are based on over 500 interviews with managers, analysts and other industry professionals in the euro zone and are internationally recognised as a benchmark for excellence in investor relations.

5.2. SHAREHOLDERS' OFFICE

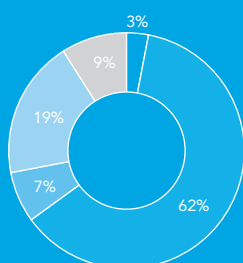
ENDESA's Shareholders' Office provides a free shareholder relations service, either in person or by telephone or e-mail, answering any queries shareholders may have and providing them with the following information concerning a variety of issues: results, dividends, share prices, new bond issues, General Shareholders' Meeting, etc.

In 2005, the Shareholders' Office handled some 12,400 telephone enquiries and 9,500 visits from private investors, most regarding the General Shareholders' Meeting, and sent more than 1,800 information mailings by post or e-mail.

One of the main sources of information for shareholders is ENDESA's website (<http://www.endesa.es>), which provides a large amount of economic and financial information for the investment community through the "Investors" section. This section contains links to quarterly financial results, press releases and official filings, corporate presentations, documents related to the General Shareholders' Meeting, information on dividends, share price performance, etc. In addition, the conference calls on quarterly earnings are broadcast in real-time via Internet.

TYPE OF INFORMATION REQUESTED BY ENDESA'S PRIVATE SHAREHOLDERS IN 2005

General info on ENDESA	3%
General Meeting	62%
Dividends	7%
Share price	19%
Takeover bid by Gas Natural	9%



ENDESA also sends interested investors and shareholders press releases, quarterly results statements, reports and corporate magazines.

5.3. ENDESA SHAREHOLDER STRUCTURE

According to figures from the latest General Shareholders' Meeting of May 2005, ENDESA has 858,946 shareholders.

Capital stock according to information provided by Iberclear at 19 April 2005 for the General Shareholders' Meeting breaks down as follows: 54.2% shareholders from Spain, 45.8% from other countries. Of the Spanish investors, 28.8% are private and 25.4% institutional. Of the international investors, 18.9% are from continental Europe, 10.8% from the UK, 15.3% from the US and 0.8% from other countries.



STRATEGIC PLAN

At the beginning of last October, in view of the progress made towards meeting its targets, ENDESA updated and presented its Strategic Plan to the markets, placing particular emphasis on shareholder remuneration driven by strong organic growth in all its business lines. The management team is more committed than ever to meeting its earnings targets.

1. SHAREHOLDER REMUNERATION

The priority given to shareholder remuneration is reflected mainly in the proposed dividend policy which will see more than Euro 7 billion paid out over a five year period.

This dividend policy is largely based on:

- Distribution of 100% of all capital gains generated on disposals of non-core assets.
- CAGR for ordinary dividends of over 12%, i.e., in line with expectations for bottom-line net income growth.

The distribution of these capital gains will imply substantial remuneration for the shareholder in the short-and medium term, as they include:

- Capital gains from the disposal of telecoms assets, i.e. Auna and Smartcom, totalling Euro 1,337 million.
- The remaining capital gains derive from real estate disposals, as well as other non-core assets.

Also, the higher ordinary dividend derives from the strong forecast growth for these businesses.

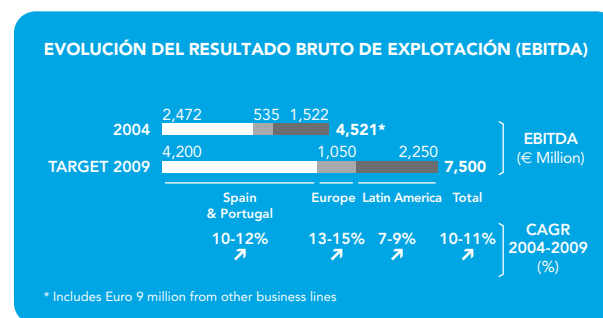
2. ORGANIC GROWTH

ENDESA's business platforms provide strong EBITDA growth (average annual figure of 10-11%) while at the same time allowing the group to pursue its Investment Plan (total of Euro 14,600 million in 2005-2009).

This growth is underpinned by the Efficiency Improvement Plan begun in the first half of 2005 which should lead to a Euro 525 million improvement in the contribution margin through to 2009 (34% of this target had already been obtained in 2005 with 70% set to be reached in 2007). A large part of this figure (Euro 240 million) will come from reducing fixed costs.

The Plan affects the Company's three business lines: Spain and Portugal, Europe and Latin America, although the impact will be greater in the former (Euro 320 million). In Spain alone, 60 initiatives to improve efficiency (with specific results and achievements

identified) have already been drawn up and put in place. In 2005, ENDESA has already met 38% of its 2009 target for the Spain and Portugal business.



3. THE MANAGEMENT TEAM'S COMMITMENT

ENDESA is committed to meeting four key targets in the period indicated above:

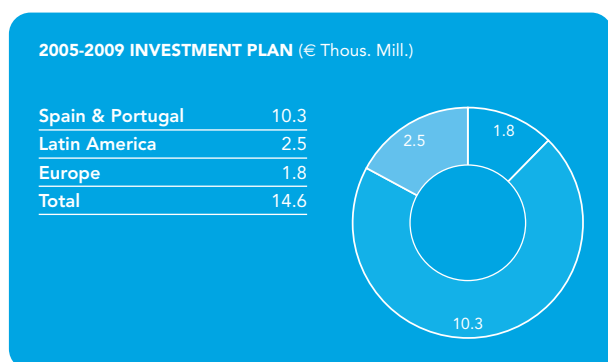
- EBITDA: CAGR 10-11%.
- Net income: CAGR 12%
- Dividends: annual increase of +12% in the ordinary dividend, in line with net income performance; distribution of 100% of the capital gains generated from disposals of non-core assets.
- Gearing: below 140%.

As proof of its commitment to shareholder remuneration and organic growth, the management team will propose at a General Shareholders' Meeting, at a convenient moment, that all their variable compensation be 100% linked to the performance of ENDESA's share price, based on the following criteria:

- Initial reference price: Euro 22.27/share, i.e. the share price at 30 September 2005.
- Zero variable if the price falls to Euro 18.56/share, i.e. the share price at 2 September 2005.
- Reinvestment of 50% of variable compensation in ENDESA shares.
- Variable compensation will represent between 40 and 70% of the Senior Management's fixed compensation.

4. OPERATING PERFORMANCE

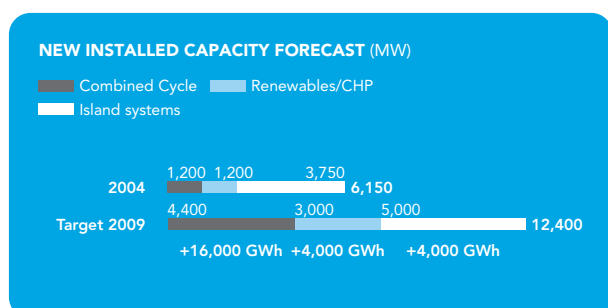
ENDESA's future growth will be based on the development of its asset base, as set out in the Investment Plan.



In **Spain and Portugal** demand for electricity is increasing at a higher rate than the EU average underpinning, in both business and economic terms, the forecast increase in installed generation capacity.

This increase will mainly take the form of new CCGT plants, new generation plants and an increase in installed capacity for the island systems. The installed capacity of these three segments is slated to grow from 6,150 MW in 2004 to 12,400 MW in 2009, with an additional 24,000 GWh per year, as can be seen in the chart below.

The growth in this business will also be fuelled by the above-mentioned Efficiency Plan and the positive changes expected to take place in the current regulatory environment as announced by the regulator. We should point out that ENDESA's Strategic Plan is based on a conservative regulatory regime, which gives even more credence to these projections.



In fact, the tariff review carried out by the Spanish government at the end of 2005, together with the total recognition of the deficit on regulated revenues, suggest the climate is more favourable than it was when the Strategic Plan presented in October was created.

In **Europe**, ENDESA Italia will increase and improve the technological structure of its generation mix, through an additional 1,755 MW and a greater weighting of CCGTs.

The group also plans to install 425 MW of renewable energy plant during this time and participate in regasification projects giving it access to gas at more competitive prices. The new regasification facilities and renewable capacity will enable current unit margins to be maintained.

Finally, Euro 95 million will be spent on operating efficiency improvements before 2009.

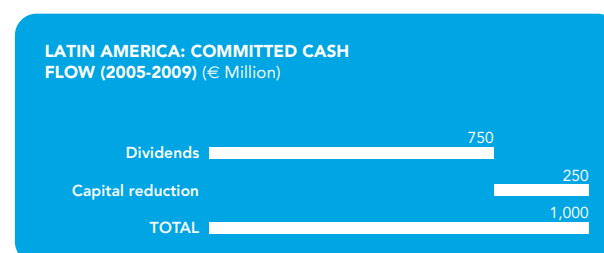
The strategy employed by French generating company, Snet, will continue to focus on cost cutting, improving efficiency and increasing capacity.

ENDESA's presence in Italy and France is also generating business in the form of international energy trading which is set to increase in the coming years. ENDESA is also negotiating its entry into the Polish electricity market, which, if successful, will offer an attractive growth platform.

In 2004-2009 we expect a significant increase in activity in our **Latin American** business, both in terms of generation capacity, which is slated to rise from 54,800 to 65,300 GWh, and distribution (from 52,000 to 67,000 GWh).

This growth will be enhanced by improved asset efficiency. At the same time, new capacity will be developed mostly in Chile and Peru where ENDESA's subsidiaries are scheduled to supply an additional 589 MW.

This business unit is expected to contribute Euro 1 billion to ENDESA's cash flow (a priority target) via dividends and capital reductions.



Also, cash flow may be boosted by a further US\$1 billion through the second tranche of ENDESA Brasil's US\$150 million share offering and US\$800 million through company restructuring.

5. STRATEGIC PLAN TARGETS MET IN 2005

In 2005, ENDESA made considerable progress towards meeting the targets set out in its Strategic Plan and amply met its business targets.

EBITDA increased by 33.2% in 2005 vs. the target of 10-11%, net income rose by 154% (60% in like-for-like terms if we exclude the disposal of non-core assets) compared to the target of 12% set out in the Plan.

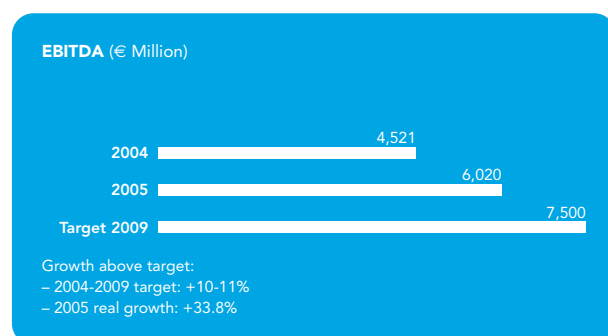
The gearing ratio was 112% at year end-better than the target of 140% set out in the Plan.

	2005	Annual Commitment to 2009	Achieved
EBITDA Growth	+33.2%	+10-11%	✓
Net income growth	+154-60%*	+12%	✓
Ordinary dividend growth	+53,5%	+12%	✓
Dividends from disposals	100% of capital gains = Euro 1,341 billion	100% of capital gains	✓
Gearing	1.12	<1.4	✓

* Including and excluding the disposal of non-core assets, respectively.

**36.3% OF TOTAL DIVIDEND PAYOUT TARGET MET:
> EURO 7,000 MILLION IN FIVE YEARS**

ENDESA also sold its 32.71% stake in the Spanish telecoms group Auna and its 100% stake in the Chilean company Smartcom with resulting capital gains of Euro 1,337 million, of which Euro 171 million deriving from the sale of 5.01% of Auna to Deutsche Bank to be booked in the first quarter of 2006.



Net capital gains from the disposal of non-core assets booked in 2005 accounts were Euro 1,341 million.

DISPOSALS IN THE TELECOMMUNICATIONS BUSINESS

€ Million	Disposal of Auna	Disposal of Smartcom
100% of Equity value	8,017	408
Stake sold	32,71%	100%
Total net capital gains	1,268*	51

* Of this amount, 171 million of euros will be registered at 1Q2006

In short, 2005 results confirm the viability of the dividend policy which the Board of Directors will propose at a General Shareholders' Meeting and which, as we have already mentioned, envisages the payment of more than Euro 7 billion in the 2004-2009 period.

The objectives set out in the Strategic Plan for 2005 have been met as a result of the strong growth witnessed in all business areas-based on specific factors in each case.

In Spain and Portugal the good performance of the generation business was key.

We highlight the following factors:

- Strong growth in demand (c.6% for the whole market).
- High pool prices: the average final price was Euro 62.86/MWh, a 76% increase over 2004
- 37% decrease in total hydroelectric production.
- Several plants were unavailable.
- High fuel and CO₂ costs.
- Tariff deficit of Euro 3,580 million.

In this context, ENDESA performed better than the market as a whole:

- *Less hydro variance.* ENDESA's hydroelectric production fell by 27.5% compared to a fall of 42.3% for the rest of the sector.
- *More competitive fuel costs.* The cost for ENDESA's CCGTs was less than its competitors' average.
- *Efficiency gains.* 4.4% drop in fixed costs in 4Q05 vs. 4Q04.
- *Significant progress made in the New Capacity Plan*, especially in:
 - CCGTs: Cristóbal Colón (400 MW) is due to come on stream in 2006, work has begun at As Pontes (800 MW), and Besós (800 MW) forms part of the Catalan Energy Plan.
 - Renewable energies: 149 MW increase in installed capacity.

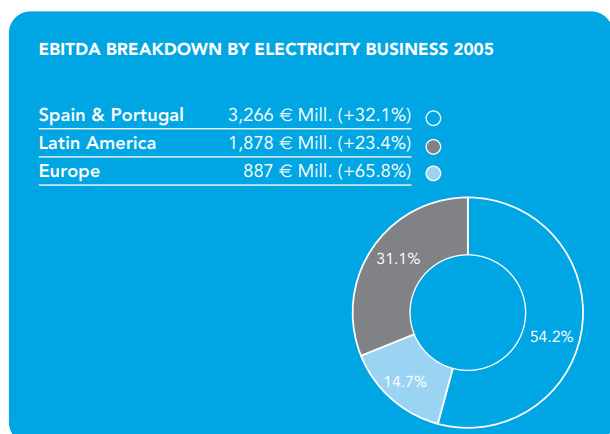
Also, the regulatory changes already approved or awaiting approval in Spain –recognition of the tariff deficit, recovery of surplus charges in non-mainland systems, etc.– offer a more secure and favourable framework for the development of this business and allow ENDESA to compete under the same conditions as the rest of the agents as no regulatory asymmetries are being observed at moment.

We reiterate that ENDESA's strategic targets are based on a conservative regulatory framework. Therefore, any favourable developments in this field make these targets even more viable.

In Europe, significant progress was made in Italy, we began to see the fruits of our labour in France and arbitrage between markets was started via the active management of interconnections and energy traded.

- *Italy.* Output increased 12%, sales rose 18%, progress was made in the renewable energy plan and the unit production margin increased by 6% against an ever demanding backdrop. The conversion to combined cycle generation of the Ostiglia and Tavazano plants was completed, with an additional 2,400 MW in combined cycle plant now in operation, and Euro 169 million in stranded costs were recognised.
- *France:* Implementation of the Efficiency Plan, with a saving in fixed costs of Euro 27 million, market risk management –through contracts with EDF– while maintaining unit margins and the sale

of Séchillienne-Sidec for Euro 104 million, with net capital gains of Euro 25 million.



There is also the possibility of acquiring the Dolna Odra Plant in Poland which would offer access to a very attractive market.

Finally, the **Latin American business** was rolled out in a favourable climate which favoured the good management of the companies and their ability to comply with regulatory issues as well as leveraging its financial position.

- *Favourable environment.* Overall growth in demand (5.6%) and output (5.1%), together with improved margins (9.9% in generation and 28.9% in distribution) and the recovery of local currencies across the board.
- *Company management.* Progress in key company restructuring – ENDESA Brasil was incorporated with income from its generation and distribution subsidiaries. The proposed Chilectra-Elesur and Etevensa-Edegel mergers are going ahead as planned (more favourable outlook in Argentina) and an agreement was made with Edesur-Uniren to operate and manage generation projects (Foninvemem)–, etc.
- *Financial optimisation.* Cash flow for ENDESA in line with forecasts, and 2005 saw a substantial improvement in its rating and Enersis' and Endesa Chile's share prices (+18.7% and +55.1% respectively).



KEY DATA	2001	2002	2003	2004	2005
INSTALLED CAPACITY (MW)	37,124	40,945	41,836	45,850	45,908
OUTPUT (GWh)	139,254	151,033	158,081	175,838	185,264
SALES (GWh)	149,649	152,762	163,640	181,217	203,335
CUSTOMERS (Thousands)	20,509	20,545	21,027	22,156	23,186

BUSINESSES



ELECTRICITY BUSINESS IN SPAIN AND PORTUGAL

1. BASIC DATA FOR ENDESA'S ELECTRICITY BUSINESS IN SPAIN AND PORTUGAL

ENDESA is the leading utility in the Iberian electricity sector (comprising the electricity markets of Spain and Portugal).

It is the electric utility with the largest generation market share, in terms of both total installed capacity, with 22,416 MW at year end 2005, and output, which stood at 93,625 GWh.

This puts the Company in an excellent position to take advantage of new opportunities arising in the single Iberian energy market (Mibel) currently being promoted by the Spanish and Portuguese governments.

ENDESA is the leading electricity operator in Spain, with 38.1% share of the regulated generation market, 43.1% in distribution, 37.4% of sales to the deregulated market and 41.1% of sales to final customers. Its 297,133 km distribution network is the largest in Spain and supplies the largest volume of energy to final customers (101,258 GWh of power in 2005). Its 12 million customer base is also the biggest in the country.

It is leader in electricity retailing, with 100,868 GWh of total sales, of which 36,773 GWh were sold in the deregulated market (where customers choose their electricity supplier). ENDESA had a total of 998,154 customers from this market at the end of 2005 and sold 64,095 GWh of power in the regulated market, where tariffs are established by the government.

ENDESA sold 80,575 GWh of power on the wholesale generation market in 2005, with a market share of 30.6%. 79,168 GWh of this electricity was produced by the Company itself, while the remainder was acquired from third parties.

We also note that exports reached 1,893 GWh of power in 2005 and 2,152 GWh of power were consumed by pumping stations.

In Portugal, ENDESA operates in the generation business through its 38.9% holding in Tejo Energia, owner of the 600 MW Pego coal-fired plant, where total output reached 4,702 GWh in 2005.

The Company is also present in this business in Portugal through cogeneration plants and wind energy plants. It has a 50% stake in Sociedade Térmica Portuguesa, leader of the Portuguese cogeneration market with installed capacity of 71 MW. In 2005, ENDESA acquired 100% of the holding company FINERGE, which had a total capacity of 107.1 MW at the year end.

In addition, Endesa Energia is present in the deregulated Portuguese market through its 50:50 joint venture Sodesa, created with the local industrial group Sonae. Sodesa had 854 customers by year end 2005, accounting for approximately 2,223 GWh of contracted power and making it the country's second largest retailer.

ENDESA also has a significant presence in Spain's natural gas market, supplying over 550,000 customers in 2005. This represents 22,595 GWh of gas consumption, up 42.2% from a year earlier. In addition to these sales, its gas-fired generating facilities, mostly combined cycle power plants, consumed 22,222 GWh of gas in 2005.

2. ENDESA IN THE SPANISH ELECTRICITY SECTOR

2.1. THE SPANISH ELECTRICITY MARKET IN 2005

The main factors affecting the Spanish electricity market in 2005 were:

- Drought. Hydroelectric output in the sector as a whole totalled 18,265 GWh, down 37% from 2004, the lowest level seen in the last 48 years.
- Nevertheless, the drought did not have as much of a negative impact on ENDESA as in the rest of the sector, falling 27.5% compared to the 42.3% decline registered by the rest of its competitors.
- International fossil fuel prices also showed high increases.
- 2005 was the first year that the electricity sector had to assume the cost of CO₂ emissions, where prices also grew strongly.
- Electricity demand in the Spanish electricity market as a whole grew 5% in 2005 vs. 2004. This growth rate was higher than in most other EU member states and confirmed the trend initiated in previous years.
- Growth in demand and lower hydro output was offset by activity at coal-fired plants, where production remained at the high levels seen in 2004. The Company also had to increase its fuel-oil output by 47.6%, as power from other technologies, such as combined cycle power plants, was not enough to cover its higher generation needs.
- Renewable/CHP production rose 10.4% and supplied 20.5% of total demand, compared to 19.5% in 2004. Output sold on the wholesale market from this type of plant –pursuant to Royal Decree 436/2004 dated 27 March– increased substantially (49.3% in 2005 compared to 19.2% in 2004).
- These factors resulted in higher wholesale market prices, leading to a marked slowdown in the development of the deregulated market.

2.2. ENDESA IN THE DEREGULATED MARKET

The Spanish electricity market is fully deregulated and all customers have the right to choose their own supplier. Nevertheless, the real deregulated market, i.e. customers who have actually exercised their right to choose their supplier, made up only 33.6% of the total electricity market (measured in terms of power consumed) at year end 2005, up just 0.4 percentage points from 2004.

ENDESA supplied 36,773 GWh of power to customers in the deregulated market in 2005, with a share of 37.4%, up 0.3 percentage points vs. year end 2004.

Total customers in the deregulated market stood at 998,154 at 31 December, 445,162 more than at year end 2004.

ENDESA's retention rate for customers in the domestic deregulated market stood at 87.6%, and deregulated sales to customers in areas where the Company does not operate as a distributor grew 32.7%.

These figures reflect not only the high level of loyalty inspired by the Company thanks to its attractive and competitive offers and personalised customer service, but also its competitiveness in capturing new contracts in areas that have been traditionally supplied by other utilities.

It has a large customer service network, comprising 58 commercial offices and 435 service points, including 3 commercial offices and 40 service points located outside of its distribution market.

In 2005, ENDESA offered a wide range of standard and personalised products for the corporate and large-customer sectors, based on level and type of consumption. It continued to develop its information channel to provide customers with advice on electricity supply, rates, efficient consumption and other matters of interest. The Company also consolidated its commercial position as a benchmark supplier to the main sectors of the economy, including the automotive and chemicals industries, to which it offers integral energy services.

2.3. ENDESA IN THE REGULATED MARKET

ENDESA's distribution market in Spain covers an area of some 200,000 km², encompassing 20 provinces in seven Autonomous Communities (Catalonia, Andalusia, the Balearic Islands, the Canary Islands, Aragon, Extremadura and Castilla and León) with a total population of about 20 million.

The Company had more than 10.96 million customers in the regulated market (including those supplied under the tariff system and those located in ENDESA distribution areas that had chosen their supplier) in 2005, up 2.3% from 2004.

TOTAL NUMBER OF ENDESA CUSTOMERS IN THE REGULATED MARKET

	2005	2004	% chg
Aragon*	843,195	826,660	2.0
Catalonia	4,008,577	3,940,830	1.7
Balearic Islands	624,769	611,352	2.2
Andalusia and Extremadura	4,454,266	4,333,257	2.7
Canary Islands	1,035,430	1,004,875	3.0
TOTAL ENDESA	10,966,237	10,716,974	2.3

* Including the customers of AEE, S.A.

The increase in customer numbers was particularly significant in the Canary Islands (3.0%), Andalusia and Extremadura (2.7%) and the Balearic Islands (2.2%), due largely, as in previous years, to Spaniards and foreigners setting up second homes in these areas.

Total power supplied through ENDESA's distribution networks reached 101,258 GWh in 2005, up 5.4% from 2004. Worthy of mention were the large increases in power supplied in Andalusia and Extremadura (7.5%) and in the Balearic Islands (4.9%).

TOTAL POWER SUPPLIED BY ENDESA (GWh)

	2005	2004	% chg
Aragon	8,058	7,843	2.7
Catalonia	42,784	41,039	4.3
Balearic Islands	5,185	4,943	4.9
Andalusia and Extremadura	37,325	34,708	7.5
Canary Islands	7,907	7,556	4.6
TOTAL ENDESA	101,258	96,088	5.4

36.7% of the total power supplied by ENDESA was accounted for by customers on the deregulated market in 2005, compared to 31.6% in 2004.

As a result of the full deregulation of the Balearic and Canary Island markets in 2004, the percentage of power supplied to customers on the deregulated market in these regions continued to rise, increasing to 20.5% in 2005 from 9.3% a year earlier.

ENDESA's electricity sales on the regulated market to customers supplied under the tariff system dropped 2.5% to 64,095 GWh in 2005 from 2004, mainly due to customers switching from the regulated to the deregulated market.

ENDESA'S ELECTRICITY SALES IN THE REGULATED MARKET (GWh)

	2005	2004	% chg
Aragon	4,917	5,298	-7.2
Catalonia	23,117	24,458	-5.5
Balearic Islands	4,227	4,531	-6.7
Andalusia and Extremadura	25,654	24,671	4.0
Canary Islands	6,181	6,804	-9.2
TOTAL ENDESA	64,095	65,762	-2.5

Power supplied to the deregulated market, for which only access fees are paid, rose 22.5% in 2005.

2.3.1. Distribution Infrastructure

As part of its Strategic Plan for 2005 ENDESA invested a total of Euro 1,389 million in its distribution assets in 2005, up 28.9% from 2004, to meet the higher demand from its markets and as part of its commitment to improve the quality and safety of supply.

As a result of these investments, ENDESA's distribution network grew by 7,773 km in 2005, bringing its total length to 297,133 km at the year end, of which 25% were underground cables.

The Company also opened 40 new substations and 4,793 medium-to low-voltage transformer stations in 2005, bringing the total number of substations to 893 at the year end and the total number of transformer stations to 132,730.

ENDESA's installed transformation capacity rose by 7,889 MW (12.3%) in 2005 vs. 2004.

It must be noted that both ENDESA and the other sector operators often encounter difficulties when seeking to obtain the legal permits and rights of way required to install new distribution facilities, which delays their coming on stream, holds back improvements in service quality and, in some cases, prevents new supplies from being made. To avoid this, ENDESA is increasing its collaboration with various local governments with the aim of ensuring that such projects can be successfully implemented.

In addition to developing new infrastructure networks, it is also worth highlighting the efforts being made by the Company to improve supply quality, such as extra maintenance work, remodelling plants or improving the automation of the medium-voltage grid (less than 36kV). The Company also merged the Andalusia and Badajoz control centres into one single centre equipped with the latest technology to oversee the high, medium and low voltage grids.

Throughout 2005, the automation plan for the medium-voltage grid led to the installation of 1,747 new remote control stations, an increase of 69.3%.

Other projects focused on reducing the environmental impact of the Group's networks and rolling out various rural electrification plans that have the backing of the related government authorities and EU funds.

ENDESA'S ELECTRICITY DISTRIBUTION FACILITIES¹

	2005	2004	% chg.
High-voltage overhead lines (km)	20,870	20,539	1.6
High-voltage underground cables (km)	674	635	6.1
Medium-voltage overhead lines (km)	78,445	77,981	0.6
Medium-voltage underground cables (km)	29,228	27,540	6.1
Substations (No.)	893	853	4.6
Substations (MW)	71,754	63,865	12.3
Transformer stations (No.)	132,730	127,937	3.7
Transformer stations (MW)	51,065	47,911	6.6

¹ Figures for 2004 may differ from those published in the corresponding annual report due to inventory updates subsequent to its publication. 2005 figures (as at 09/01/2006) are also provisional. The total length of the low-voltage line network was 167,916 km at the end of 2005.

Among the projects undertaken by ENDESA in 2005 to improve and extend its distribution infrastructure in each of its geographical markets in Spain we highlight the following:

- **In Catalonia:** six new substations came on stream as part of the Tramuntana Plan in Almatret, Baqueira, Fortesa, Motors, Puigpelat, and Tanger, three of which had a feed upwards of 220 kV. Installed capacity increased by 620 MW with a total of 12 transformers.

20 substations were enlarged with 27 new transformation units and total capacity of 897 MW.

55 km of new line was built, 41.4 km of which is 220 kV line. In addition, the Tarragona-Altfulla and Pierola-Capalledes-Santa Margarida lines, and part of the Ponts – Congost-Cardona line, were expanded by 72.5 km.

Lastly, under the Medium-Voltage Remote Control plan 776 new remote control points were installed.

- **In Andalusia and Badajoz,** the Company continued to roll out its 2004 Alborada Plan, putting into service the new Andarax, Polígono, Aljarafe, Puerto de Santa María and Olivares HV substations and the Ruta de la Plata, Bobadilla, Aljjar, Pedro Martínez, Hytasa, Rastro, Benalmádena, Abelló Linde, La Morena, Bioenergética Egrabense, Hornachos, Darro, Espejo and Alcalá de Guadaira HV/MV substations.

Transformation capacity was increased via the installation of 80 new transformers (15 of which are HV/HV) in the new HV substations and at the Centenario, Palacios, Torrearenillas, Alcores, Don Rodrigo, Onuba, Villanueva del Rey and Santiponce substations. 118 new machines were added, six of which were HV/HV. Transformation capacity rose by 4,826 MW as a result of these efforts.

The Company also installed 77 new condensation batteries, which increased the compensation capacity for reactive power by 642 MW.

Lastly, projects were carried out to install 191.6 km of HV circuit, and existing circuit capacity was enlarged by changing the driver and/or isolating a total of 918.8 km of HV line.

- In the Balearic Islands, it is worth noting the increase in 220/66 kV transformation at the Valldurgent and Bessons substations, as well as the increase in the 66/15 kV transformation capacity at the Andratx, Arta, Calvia, Manacor, Marratxi, Pollensa and Portocolom substations.
- In the Canary Islands, the most noteworthy events were the increase in the HV/MV transformation capacity at the Salinas (Fuerteventura), Polígono de Granadilla (Tenerife), Playa Blanca (Lanzarote) and San Mateo, Cinsa, Carrizal and Telde (Gran Canaria) substations.

The new 66 kV underwater line between the Corralejo and Playa Blanca substations on the Lanzarote-Fuerteventura grid came on stream. In addition, the new Punta Grande-Macher line and the new Meloneras, Guajara and Lomo del Cardo substations were opened. The following 66 kV lines between the islands of Lanzarote and Fuerteventura were also upgraded: Salinas-Gran Tarajal-Matas Blancas, Salinas-Corralejo and Punta Grande-Macher-

Playa Blanca by replacing cross heads, insulation and earth wires and strengthening anchors.

On November 28, Hurricane Delta hit the Canary Islands causing serious damage to the islands' basic infrastructure. By 7pm that same day, serious incidents had occurred in the electricity infrastructure affecting 200,000 of the islands' supply points at the worst moment. La Palma and particularly Tenerife were hit the hardest, with 161,148 customers affected and significant damage caused to the medium and high voltage transportation grid. ENDESA launched a large-scale operation to correct the situation, sending staff from all of its geographical areas to restore power services as quickly as humanly and technically possible considering the magnitude of the disaster. The mission took place in record time, with power restoration times comparable to those achieved in similar incidents in developed countries.

- In Aragon, the Company reinforced its 132 kV network with the new Teruel-La Puebla de Valverde line, where it installed transformation capacity of 132 kV/MW. The 45 kV line was reinforced with the new Entrerrios–Figueruelas and Alcorisa–Calanda lines, the La Almunia – El Frasno line at Secc. Morata and the Leones-Figueruelas line at Monzalbarba, as well as the new Fuenfresca substation.

In addition, the HV/HV transformers were enlarged at the following substations: Montetorrero (220/132), Magallon (220/66), Entrerrios (220/45), Alcañiz and Teruel (132/45/MT). Also, 27 new transformers were installed to enlarge HV/MV capacity, 17 of which replaced others with lower capacity.

The Company continued to work on the installations required to extract generated wind power envisaged in the Strategic Plan for Renewable Energy in Aragon (Perea).

2.3.2. System availability

In 2005, ENDESA made a significant improvement in its supply quality. In three of the five geographical areas where it distributes power, the Company met targets for quality that were initially set for 2009.

Increased investment, which was exceptionally high due to strong growth in demand in the markets supplied by ENDESA, helped to bring these targets forward, as did the significant management effort made under the auspices of the Quality Master Plan described later in this report.

The SAIDI (system average interruption duration index) is the most commonly-used indicator to measure the continuity of electricity supply and can be compared to previous years' supply. This index stood at 2 hours and 14 minutes in 2005, representing an improvement of 40 minutes, or 23%, from 2004.

The system was available for 99.97% of the total hours of the year.

The impact of Hurricane Delta which hit the Canary Islands on 28 November was not reflected in the SAIDI due to the extreme nature

of this phenomenon. The additional SAIDI derived from this catastrophe, which has been universally classified as “force majeure”, was 31 minutes.

It is worth mentioning that the electricity networks on the islands are not connected to any other system, which forces them to be completely self-sufficient and dynamically stable as they have no possibility of external support. Thus, weather conditions have a much more significant impact on these systems than on the mainland. In addition, any type of incident affecting generation or transport facilities has a direct effect on the distribution network and thus on power supply to customers. Power recovery capacity is also lower than in the large interconnected electricity systems.

However, having said that, supply quality levels in the Canary and Balearic Islands are among the highest in the world.

Virtually all of ENDESA’s geographical areas registered significant improvements in the SAIDI in 2005, including a 30% improvement in Andalusia and Badajoz and an + 20% improvement in Aragon and the Balearic Islands, where quality was already excellent in 2004. Catalonia hit a historical milestone, with a total SAIDI of 90 minutes, on par with the best performing comparable geographical areas.

SAIDI TOTAL (HH:MM)			
Geographical area	2005	2004	2005 vs. 04
Aragon	1:30	1:57	-23%
Catalonia	1:31	1:49	-16%
Andalusia and Badajoz	3:13	4:34	-30%
ENDESA MAINLAND	2:13	2:57	-25%
Balearic Islands	2:09	2:46	-22%
Canary Islands*	2:19	2:25	-4%
ENDESA NETWORK	2:14	2:54	-23%

* Excluding the effect of Hurricane Delta.

2.3.3. Customer Services

As a result of the work carried out in previous years to strengthen customer service channels, in 2005 ENDESA focused on the following points:

- *Quality perceived by customers.* This indicator, which was carefully monitored in 2005, showed high levels of satisfaction in all channels and processes. In addition, sales training and customer service quality incentive campaigns were run at Service Points and Sales Offices.
- *Rationalisation of Sales Office and Service Point networks.*
- *Optimisation of Customer Call Centres.* Throughout 2005, ENDESA extended the new services created in 2004, such as the Customer Call Centre for corporate customers, to all of the geographical areas it supplies. Further platform reinforcement services were also

installed to handle calls when serious incidents arise, and Customer Call Centre teams created specialised in queries regarding tailored equipment and complaints.

- *Improvement in processing complaints,* by further developing the structure and tools implemented in 2004.

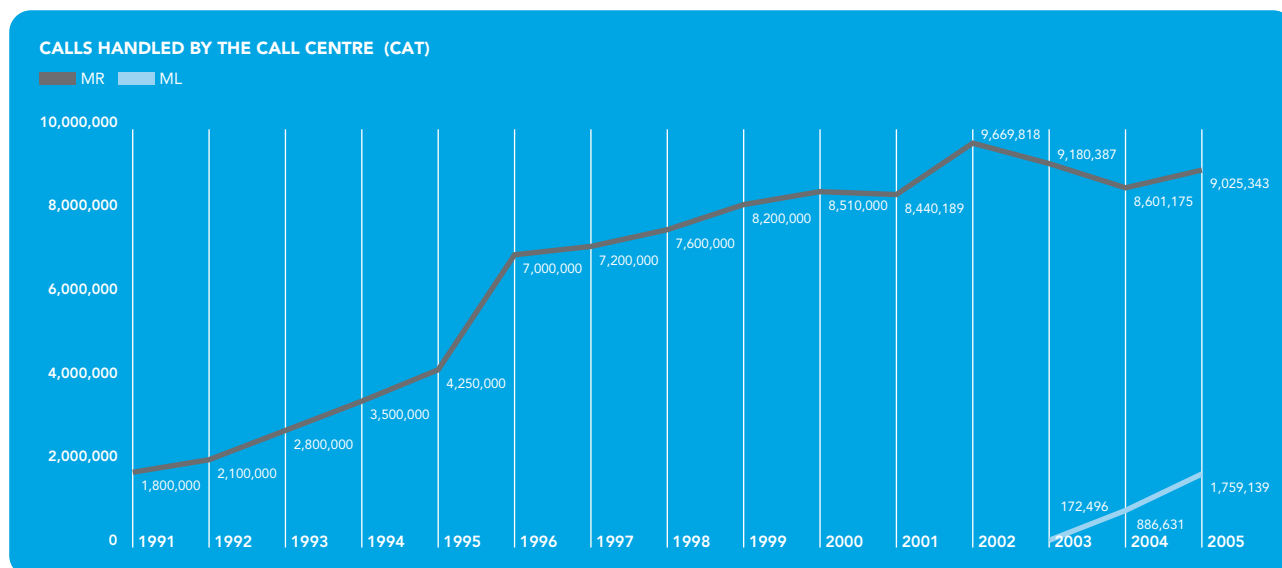
ENDESA has a network of geographical channels in place for different operating segments aimed at efficiently responding to customers’ needs:

- For *Large Customers*, ENDESA has a team of customer managers organised both by industry and geographical area, providing in-depth knowledge of Large Customers’ needs and personalised, competitive solutions.
- For *New Construction*, ENDESA has a specific channel to provide personalised attention for housing developers in areas where it operates as a distributor, aimed at landing future supply contracts and complimenting offers with other products and services.
- For *Corporate Customers*, the Company offers personalised power supply and value-added services for consumption that falls below that of Large Customers, but above that of the general public.
- For *Households*, ENDESA has several customer service channels, including 55 Sales Offices and 395 Service Points in the areas where it operates as a distributor, as well as three Sales Offices or ENDESA Stores and 40 Service Points in nearly all of the Autonomous Communities where it does not operate as a distributor. Overall, ENDESA has a network of 493 customer service points for mass market customers in Spain.

The Customer Call Centre took 9,025,343 calls regarding sales management or supply incidents in 2005, up 5% from 2004. This increase reflects the rise in new services throughout Spain, as well as customers’ confidence in the efficiency and comfort of this service.

ENDESA’s Customer Call Centre encompasses three physical call centre platforms (one in Seville and two in Barcelona) in a single virtual platform, which makes management of the service highly flexible and allows for high quality customer service, in addition to optimising operating costs.

CUSTOMER SERVICE POINTS FOR ENDESA’S CUSTOMERS IN SPAIN			
	Sales Offices	Service Points	Total Customer Service Points
Aragon	8	33	41
Catalonia	7	164	171
Balearic Islands	3	23	26
Souther Spain	34	145	179
Canary Islands	3	30	33
TOTAL	55	395	450
In areas supplied by other distributors	3	40	43
TOTAL	58	435	493



In 2005 ENDESA launched its new service for customers who prefer to use the Internet for account management or information. At www.endesaonline.com/, customers can find information about new offers for products and solutions under the Household, Business and Corporate segments. Registered customers can consult their bills, modify data on their contracts, provide electricity use readings, and even sign on to the deregulated market. At year end 2005, ENDESA had over 100,000 online registered customers and had performed over one million services and queries.

2.3.4. The ENDESA Customer Ombudsman

The main goal of ENDESA's Customer Ombudsman, who is independent from the Company's management, is to provide customers with an additional channel for dialogue in all issues relating to the services the Company provides in the Spanish market. The Ombudsman also listens to internal and external representatives and recommends ways to improve the quality of service and meet customers' expectations.

In June 2005, ENDESA's board of directors appointed José Luis Oller Ariño as Customer Ombudsman to replace Antón Costas Comesaña.

Last year the Customer Ombudsman focused on establishing mediation as the preferred channel to foster mutual trust and improve relations between the Company and its customers.

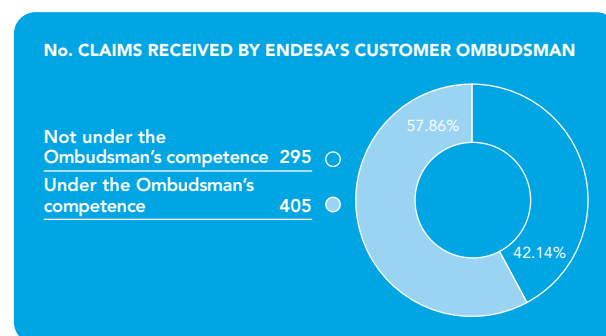
As in previous years, the Customer Ombudsman maintained contact with public authorities, consumer organisations and regulatory bodies, as well as with the Company's various internal representatives.

In June 2005, the Customer Ombudsman organized a work conference with ENDESA's management team in Catalonia called *Public Service Quality under Examination: Electricity Services* with the aim of generating a debate about topics relating to customer service quality.

One of the Ombudsman's priorities is to create a protocol for customer service in the case of serious disasters or catastrophes.

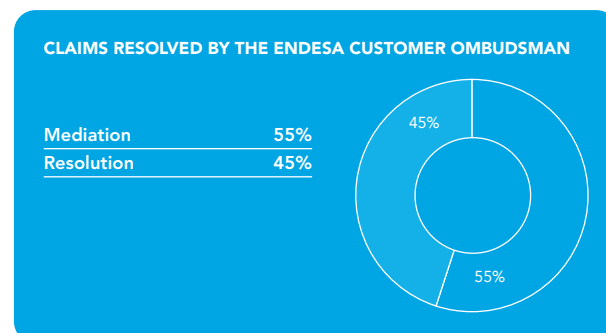
2.3.4.1. Claims received by the Customer Ombudsman in 2005

In 2005, the Customer Ombudsman received 700 claims, of which 58% fell fully within the realm of issues that can be solved directly by this office.

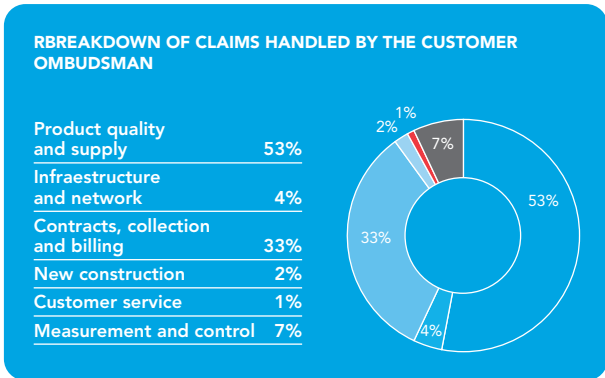


Once the claims had been studied and initial contact with the customers established, they were referred to the Company's normal customer service channels for final processing.

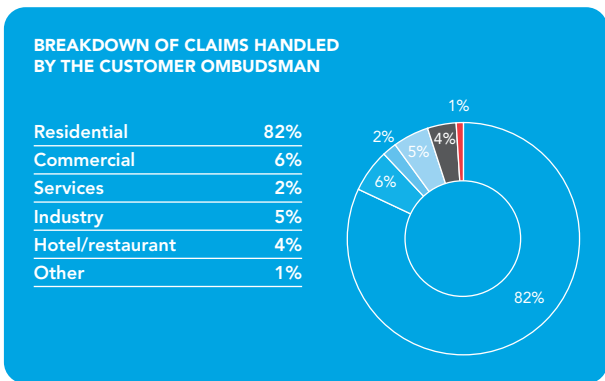
Of the claims that fell under the Ombudsman's competence, 55% were handled and settled through mediation between the Company and the customer, and 45% were settled through a decision taken by the Ombudsman. 77% of the final resolutions ruled either totally or partially in the customer's favour.



Of the claims that fell under the Ombudsman’s competence, 53% were related to matters concerning supply quality, 33% to contracting services and the remainder to other issues.



82% of the claims handled by the Customer Ombudsman were received from household customers.



2.3.5. Measure of perceived quality

ENDESA periodically measures the quality perceived by its customers in order to gain an in-depth knowledge of their impressions and expectations regarding the electricity service provided, as well as to design new initiatives aimed at enhancing quality and to ascertain the effectiveness of the Company’s sales strategies.

Based on the results of telephone and mystery shopping surveys aimed at all customer segments and market subscribers in 2005, the average level of customer satisfaction with the services offered by the Company was 7.63 out of 10, up from 7.54 in 2004. The average level of satisfaction with the supply quality provided by the ENDESA was 8.13.

Also, customer loyalty was extremely high in 2005, with 71.9% of customers stating their intention to remain with ENDESA, as well as recommend the Company to friends and family. The level of customer loyalty achieved in 2005 was higher than the 71% obtained in 2004.

2.3.6. Quality Excellence Plan

For reasons of operating efficiency and regulatory transparency, ENDESA currently has two Corporate Projects related to the quality of supply: the Quality Master Plan, led by ENDESA Red, and the Customer Service Excellence Plan, led by Endesa Energía.

2.3.6.1. Quality Master Plan

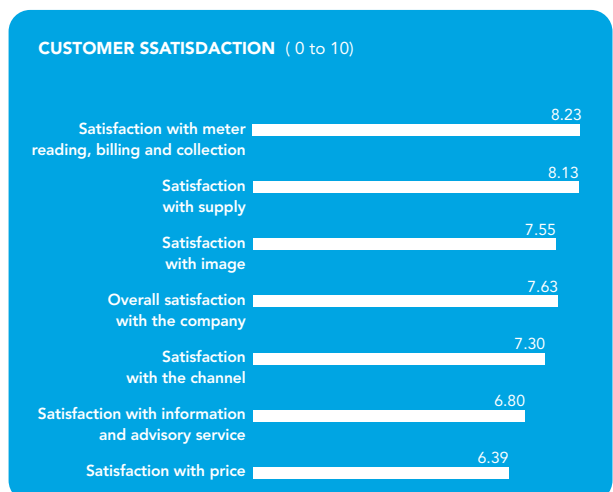
The excellent results obtained in 2005 were largely due to the contribution of various projects to improving management and efficiency as part of the Quality Master Plan, grouped under the name METÓDICA Pi/2.

The development of these projects led to results such as a 35% improvement in the response time to incidents, or reducing by more than half the time that customers are affected by programmed black-outs.

Since its launch at the beginning of 2004, METÓDICA Pi/2 has included the following initiatives: Perceived Quality Function, the Investment in Quality Plan, the Preventive Maintenance Improvement Plan, the Technological Plan, the META Project to improve response times to incidents, the Supplier Improvement Program, the Excellence in Technical Service Plan and the Wave Quality Adaptation Plan.

In addition to furthering these programmes in 2005, the following projects were also launched:

- MICRO project: to define innovative strategies for substation maintenance in terms of the reliability of their components and the combined failure risk of their equipment, as well as the potential impact of any technical failure on the market.
- Formula 1 Project: to apply Lean methodology to downloading programme processes –programmed blackouts to expand or repair new networks and installations– with the aim of minimizing the amount of time that service is interrupted.



- NABLA Project: to optimise the building new network installations and putting associated installations into service with the aim of drastically reducing their delivery time, whether for new supplies to customers or for operation needs; also, to reduce the number of construction and assembly defects to zero.

The group of initiatives that have the highest impact on the network are submitted to an additional process called Tic-Tac, which monitors the appearance of new improvement initiatives on a daily basis to determine whether or not they have produced the desired results.

Significant progress was also made in improving the Technical Service for customers, which encompasses all of the distribution operations relating to customers: tailored equipment management, supply connections, telephone service for breakdowns, response to new requests for supply, etc.

A system has been created in this field to continually generate initiatives for improvement based on overlaps in information from internal process indicators, measuring customer perception and analysing the root causes of complaints, as well as follow-up procedures to determine whether the established steps were respected and how service was ultimately provided to the customer.

2.3.6.2. Customer Service Excellence Plan

The aim of the Customer Service Excellence Plan is to ensure that customers receive satisfactory service from all sales channels and processes through which they interact with the Company.

In 2005, the plan focused on the processes or channels that are most relevant for customers based on frequency or urgency. Five major contact areas were revised and improved upon:

- Reducing the amount of time to contract a service by 20% to 20 days in the Large Customer and corporate segment.
- Providing appropriate information for calls concerning service problems 100% of the time.
- Providing adequate and timely general information 100% of the time.
- Resolving 96% of claims in less than five days.
- Appropriate post-sale, error-free customer service for electricity and gas contract sales, as well as for value-added product and service sales. The Company also designed a delivery and post-sale protocol adapted to different types of customers which set standards for quality, delivery and prices for each operation.

All of these projects take into account "the customer's opinion." In other words, the projects are adjusted to customer's expectations-whether they be Business, Corporate or Household customers.

The results have been very positive:

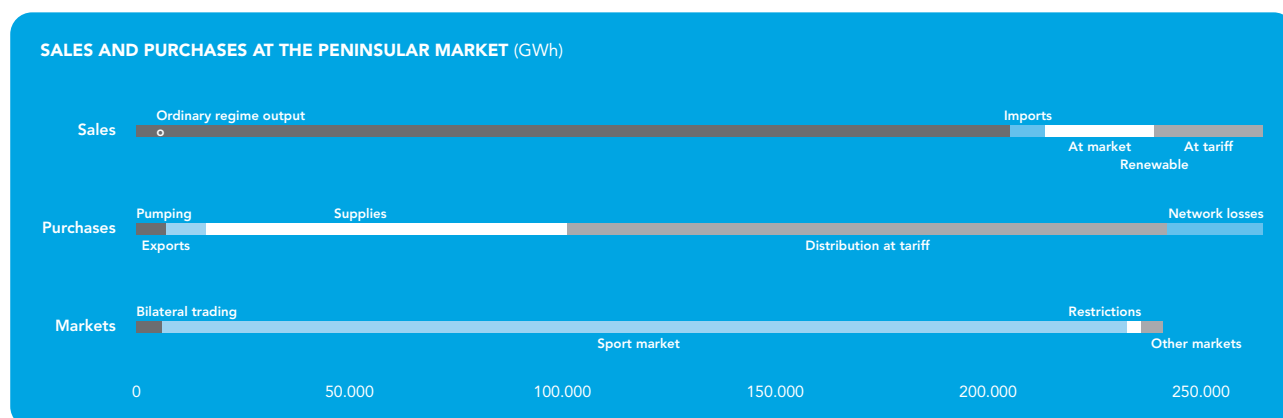
- Client satisfaction with meter-reading and billing stood at 7-8 out of 10, according to different segments.
- Satisfaction with public and personal customer service points reached 8 out of 10.
- The average time taken to solve billing complaints was cut by half, and the response time for applications was cut by 30%.
- Satisfaction with contracted value-added products was close to 8 out of 10, and the claims index in this area was below 2%.

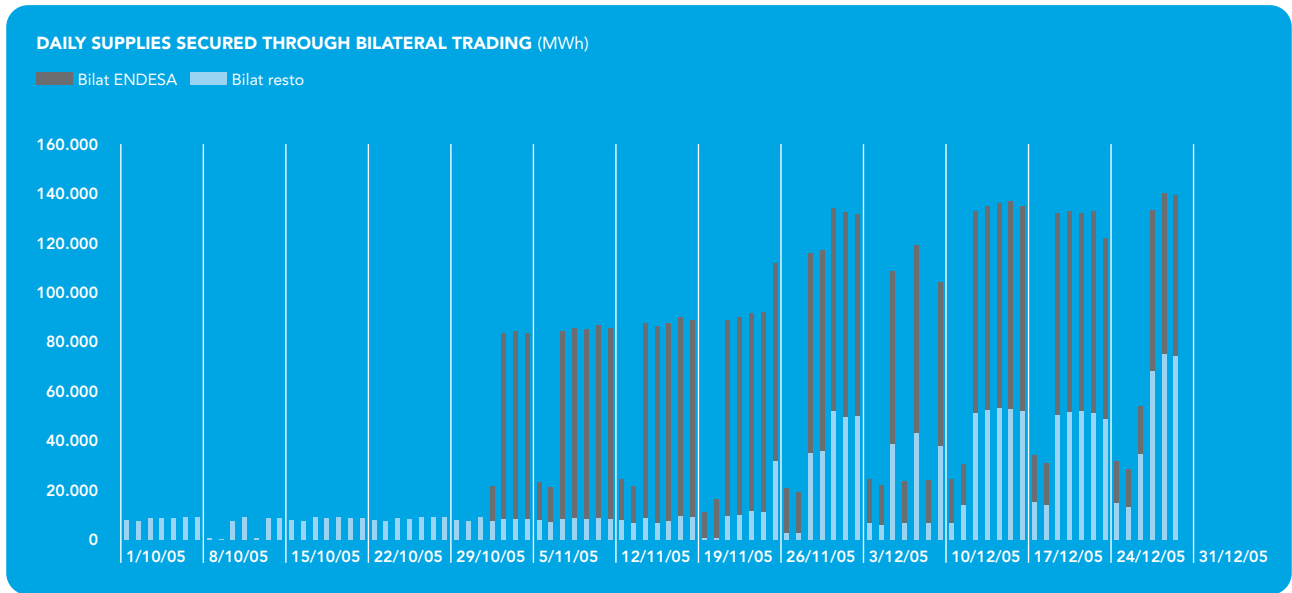
In order to ensure that the improvements laid out in the plan have been satisfied, some specific indicators were created for the Project, which are monitored on a monthly basis to verify that the targets have been correctly implemented and achieved.

2.4. ENDESA IN THE WHOLESALE ELECTRICITY MARKETS

2.4.1. The Spanish wholesale electricity market in 2005

The Spanish wholesale market contains two types of market: the spot and intra-day markets, overseen by the Market Operator, and the operating market, managed by the System Operator, designed





to provide the necessary reserves to meet demand and other ancillary services.

In 2005, approximately 237,388 GWh of power (90.3% of Spain's entire electricity system) was traded on the wholesale market. The remainder came from renewables/CHP, traded directly by distributors.

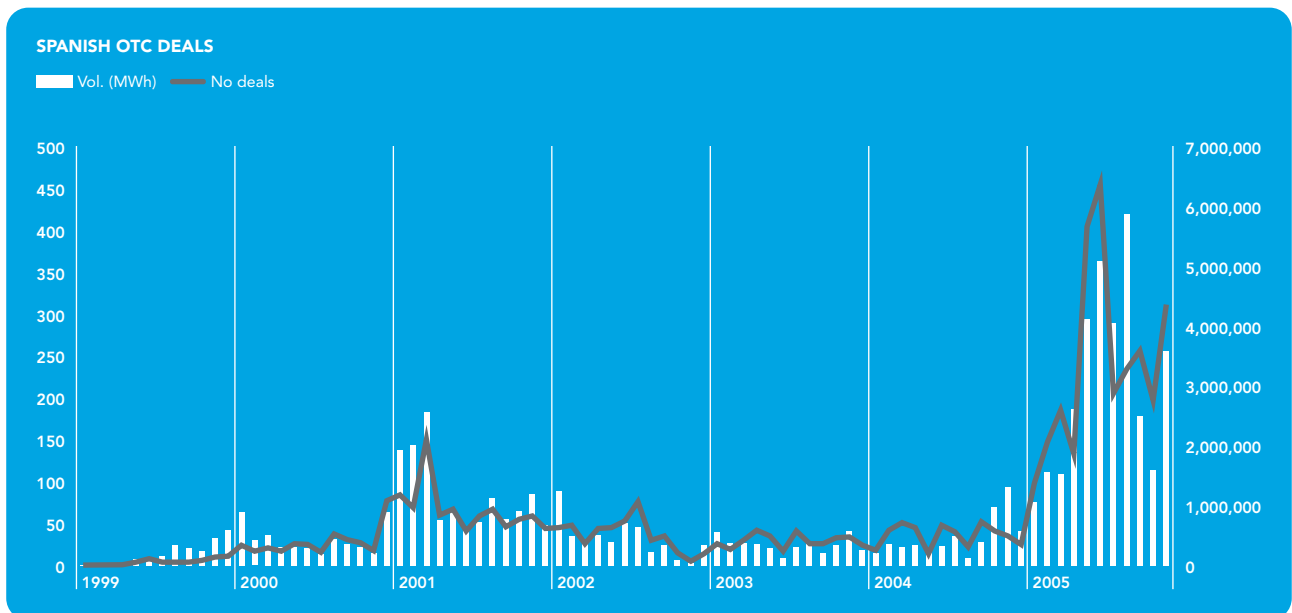
In addition to the organised market, producers and customers can enter directly into supply contracts or financial contracts to lock in prices. Both forms of trading, still rather modest in terms of volume, soared in 2005: bilateral trading totalled 7,020 GWh and swap agreements finished the year at an estimated total of 36,000 GWh

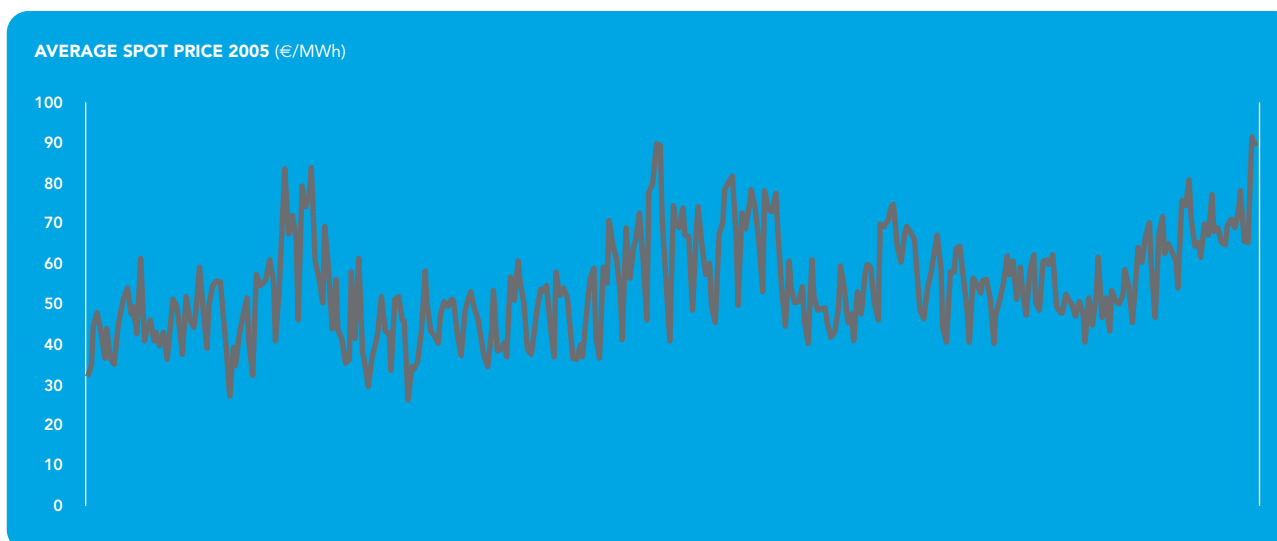
– equivalent to ten base load combined cycle plants valued at over Euro 1.6 billion.

Financial OTC derivatives trading increased significantly, primarily as a result of new players emerging on the international scene, a sign of the increasing consolidation of this market, which complements trading on the OMEL.

2.4.1.1. Performance of electricity prices

The average spot price stood at Euro 55.98 /MWh, which varies widely from the Euro 28.74/MWh calculated a year previously. The average monthly price fluctuated throughout the year between Euro 44.18/MWh in January and Euro 73.78/MWh in December. Since cost

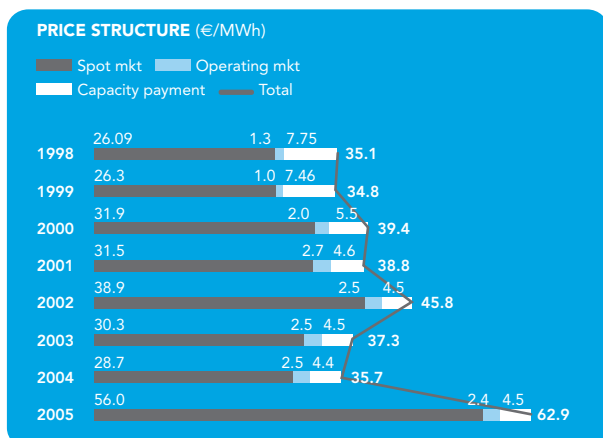




overruns of operating markets and the supply guarantee added Euro 2.40/MWh and Euro 4.48/MWh, respectively, to the average price, the final price stood at Euro 62.86/MWh, 76% higher than in 2004.

This strong increase was due primarily to the following factors: the price of emission rights, which caused fossil-fuel plant costs to soar; low rainfall during the year; and high fuel prices in international markets, particularly the natural gas market.

The high fuel prices prompted several agents to reduce the load factors for combined cycles. Nevertheless, ENDESA obtained more competitive costs than its competitors through a successful trading policy that ensured its combined cycles a higher load factor.



2.4.2. Purchases and sales in the wholesale market

ENDESA sold 80,575 GWh of power on the wholesale market in 2005, which accounts for 30.6% of total power fed to the mainland electricity system.

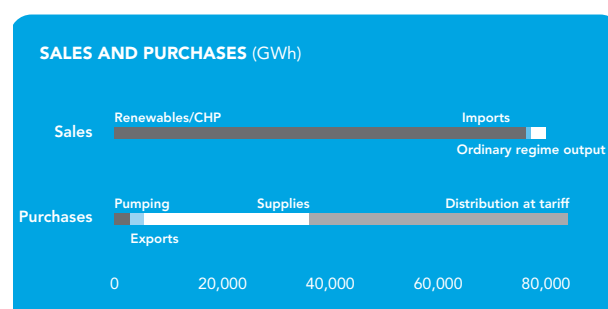
Of this figure, 3,567 GWh corresponded to bilateral trading agreements and 77,008 GWh was traded in the markets managed by OMEL

and REE. 79,168 GWh of power sold was produced by ENDESA itself and the remainder imported or surplus energy acquired from renewable/CHP plants.

Physical bilateral trading—the most popular form of trading in Europe—was practically nonexistent in Spain until the final two months of 2005, with ENDESA as a major player. The recent changes made to capacity payment regulations that eliminated the previous preference for spot market trading are increasing role of bilateral trading.

As regards purchases, ENDESA acquired 87,688 GWh of power on the wholesale market, 4% of which was secured through bilateral trading and the remainder purchased on the organised markets.

Other purchases include 1,893 GWh for exports and 2,152 GWh of its own production for hydroelectric pumping plants.



2.4.3. CO₂ Market: compliance with ETS requirements

The European Union Emission Trading Scheme (ETS) came into force in 2005 to ensure that the objectives set forth in the Kyoto Protocol would be achieved.

In keeping with its commitment to the environment and fulfilling its obligations, ENDESA actively trades on Europe’s leading markets: NordPool, Powernext and ECX and maintains publicly accessible accounts in the emission allowances registries for Denmark, France and Spain (RENADE) with a view to streamlining efforts in support of its stance on emission rights.

The CO2 market fluctuated widely in 2005. A record-high price of Euro 29 /tCO2 was recorded in the month of July although they have levelled off at Euro 21-23/tCO2 in recent months. Trading volumes were significant by the year end, following much less buoyant conditions at the beginning of the year.

ENDESA purchased 42.99 million tonnes in emission rights for 2005 under the National Allocation Plan for Emission Rights. The allocation, in itself insufficient, proved even less adequate when the need arose to increase the load factor for thermal facilities to counter the drought and meet soaring demand. As such, the rights used exceeded the original allocation. ENDESA covered its needs on all

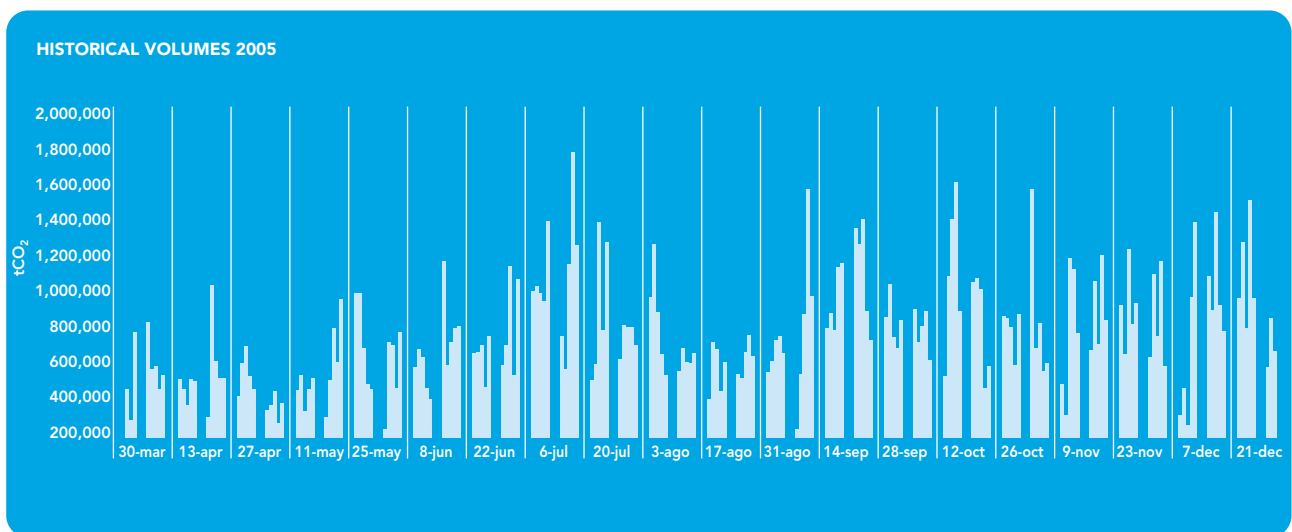
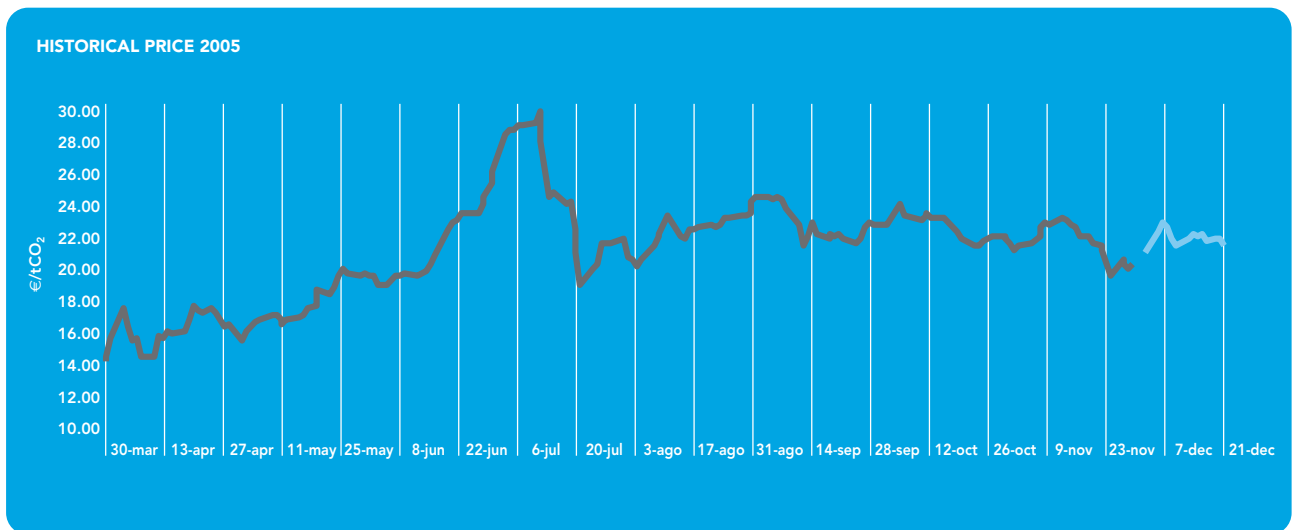
the markets on which it operates and by engaging in bilateral trade with other national and international agents.

With a view to covering its needs in the coming years, ENDESA has taken part in several international emission reduction schemes, also known as Clean Development Mechanisms, launched in 2005.

2.4.4. Sales of surplus renewables/CHP generation

In 2005 ENDESA was able to sell the surplus energy produced by renewable/CHP plants on the market. With its own total of 880 MW and annual sales estimated at 1,636 GWh, the surplus power is now being leveraged.

Moreover, some 600 GWh was acquired during the year from renewable/CHP plants owned by third parties through bilateral contracts in order to meet its own supply needs.



2.4.5. New wind energy control system

In 2005 ENDESA launched its new wind energy system, the Energy Management Centre. The system makes it possible to send remote signals to wind turbines managed by ENDESA Cogeneración y Renovables (ECyR) throughout the mainland.

The system, known as "OPEN", incorporates the latest in communications technology and its wide-range set-up enables the company to use it for windmill operation at a local, regional and national level.

2.4.6. Quality certification renewal

ENDESA's Electricity Market Unit has ISO 9001:2000 quality certification. This certification was awarded by the Spanish Standards and Certification Authority (AENOR) on 16 October, 2002 and renewed in 2005.

This certification confirms that the standards, procedures, processes and documentation relating to electricity market activities that make up the Company's Quality Management System conform to prevailing quality standards: the certification embraces all processes involved in ENDESA's operations on the wholesale generation market, that is, the sale and purchase of electricity on the wholesale market, the Company's participation in the market of the Spanish electricity market operator OMEL, the real-time operation of ENDESA's plants through its Energy Management Centre, the short- and medium-term planning of its generation activity, and its physical and financial registration.

2.4.7. Wholesale fuel market

2.4.7.1. International context

The growing demand for fuel worldwide and restrictions placed on production, refinery and transmission capacity –factors already in play in 2004– were compounded in 2005 by a severe hurricane season in the Gulf of Mexico, ongoing technical problems plaguing the refineries, the unfavourable impact of certain geopolitical conflicts, reduced surplus capacity among oil-producing countries and low fuel inventories, particularly gasoline.

Consequently, Brent oil prices, which started at Euro 41/bbl in 2005, reached record highs in the third quarter, peaking at Euro 67.70/bbl. Nevertheless, crude oil prices did fall, closing the year at Euro 57/bbl, as a result of the gradual recovery of production in the hurricane-damaged areas of the Gulf of Mexico, the use of strategic reserves, increased inventories and lower demand forecasts for crude oil worldwide. The annual average price stood at Euro 55.1/bbl.

The record-high prices for coal in 2004, which reached US\$70/tm FOB, lost momentum in 2005 and slipped in the third quarter hov-

ering at US\$40/tm FOB. This drop in price can be explained by a number of factors including lower average trading prices in the freight market, increased supply as a result of new vessels delivered and less pressure on transmission demand.

The price of natural gas rose sharply in 2005, for both long-term and spot supply. The reasons behind this spike include the impact of increased prices for crude oil and derivative products and an overall shortage due to supply problems. Natural gas prices, according to the US index, fluctuated between US\$6 and US\$14 per million BTU.

2.4.7.2. Fuel purchases made by ENDESA

In 2005 ENDESA acquired for its plants in Spain 10.71 million tonnes of domestically produced coal (including coal from its own production), 11.21 million tonnes of imported bituminous coal and oil coke, 3.01 million tonnes of liquid fuel and 1,896 million m³ of natural gas.

SUPPLY OF FUEL TO ENDESA (INCLUDING OWN PRODUCTION)

Thousands tonnes	2004	2005	% var.
Domestic coal	10,959	10,712	-2.25
Imported coal	10,698	10,570	-1.20
Oil coke	411	639	55.47
Liquid fuel	2,753	3,006	9.19
Natural gas (millions of m ³)	1,393	1,896	36.11

2.4.7.3. Other procurements

Other procurements made in 2005 include:

- The supply of 190,000 tm of imported fuel for Ceuta, Melilla and the Balearic Islands. Ceuta's and Melilla's thermal power stations imported over 90% of supply needs.
 - As regards diesel imports in the Balearic Islands:
 - Mallorca increased imports to 215,000 Mt.
 - Mahón instituted a Mediterranean refinery import scheme, facilitating the acquisition of 10,000 Mt between July and September through the use of new installed unloading controls, and thus ensured supply for the summer.
- Increased trading of low-sulphur coal for thermal power stations.
- 1.1 million Mt of thermal coal was supplied to Endesa Italia.
- Negotiations were wrapped up with new suppliers to bring in another long-term supply source of subbituminous coal from Indonesia to As Pontes.
- Securing flexible long-term natural gas contracts paved the way for more competitive large-volume discounts, thereby avoiding having to use the natural gas spot market, where particularly high prices were recorded in 2005.
- Concessions for the import facilities and works were awarded for the construction of a new terminal in El Ferrol's outer harbour.

The terminal will enable vessels to unload up to 200,000 Mt at a rate of 50,000 Mt/day to ensure the delivery of the supplies needed for the conversion of the four groups at As Pontes thermal power station.

- Fuel futures and exchange rate hedges made it possible to contain costs and, above all, calm the highly volatile fuel prices seen in 2005.

2.4.7.4. Market hedging

In 2005 the new fuel and derivatives hedging unit was consolidated. The unit will service all ENDESA's businesses, constituting a single negotiating point for the market and offsetting risk in all arenas.

In light of commodity market trends negotiations were conducted with market agents in a bid to ensure fuel costs will allow power generation stations to remain competitive. These negotiations also aimed to ensure that open positions will be maintained within the limits set down by the Company's Risk Policy.

Over 3 million tonnes of coal were traded in 2005, along with more than 1 million tonnes of liquid fuel and nearly 1 million tonnes of barrels of oil. Sizeable hedging transactions were also carried out using direct formulas for natural gas procurement or indexed to various products.

2.4.8. Risk management in the electricity business

In 2005 CO₂ emission rights were added to the risk management portfolio managed by the Energy Management Division, which already oversees risk in the fuel and electricity markets. Furthermore, the Electricity Business Risk Management Policy for Spain and Portugal was renewed and, particularly, its Energy Management Policy.

The Business Risk Management Committee for Spain and Portugal controlled risk positions in the fuels, electricity and emissions rights markets by limiting open positions and implementing aggregated risk measures. Counterparty risk was controlled via limited exposure to credit.

The regulatory uncertainty surrounding the reimbursement of the tariff deficit in 2005 made it difficult to assess the Company's open positions in the Spanish electricity market, which were managed on the assumption that the deficit would be reimbursed.

In the fuel markets, ENDESA continued to implement its policy of ensuring physical supplies at all times, maintaining very small open positions throughout 2005 and using the closing price for physical supplies or derivatives to establish prices for indexed supply contracts. A specific percentage of fuel was also hedged in 2006.

It should be noted that non-mainland System Regulations have substantially reduced the exposure of the Company's generating facilities in Spain to fuel prices. Also, ENDESA's overall risk was reduced

through a healthy portfolio of business activities in the European markets.

Lastly, the market risk margin (probability of 5%) represents less than 5% of the projected annual margin in Spain and Portugal for energy activities carried out by this business line in 2006.

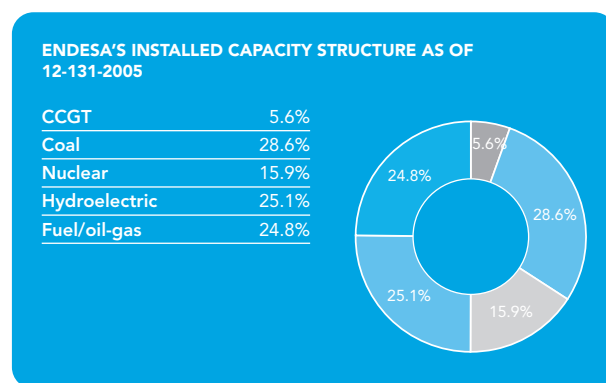
2.5. ENDESA GENERATION

2.5.1. Ordinary Regime

2.5.1.1. Installed capacity

ENDESA is the Spanish electric utility with the highest production capacity. At year end 2005, its installed capacity totalled 21,409 MW under the ordinary regime (excluding Nuclenor since it is not globally consolidated by ENDESA). Of this amount, 17,463 MW were produced by the mainland electricity system and the remaining 3,946 MW by non-mainland systems, i.e. the Balearic Islands, Canary Islands, Ceuta and Melilla.

ENDESA has a generation capacity that is more than sufficient to meet the demand of its markets and is sufficiently diversified in structure: 28.6% coal-fired plants, 25.1% hydroelectric plants, 24.8% conventional fuel-oil/gas plants, 15.9% nuclear plants and 8.9% combined-cycle gas plants.



This diversification covers ENDESA during the periods of low rainfall that characterise the Spanish electricity system. Also, as seen in 2005, the catchment areas in which ENDESA's hydroelectric plants are located are less affected by lower rainfall than those of other electric utilities and, therefore, the Company's hydroelectric output is more stable.

Also, ENDESA's fossil-fuel plants have the capacity to substantially increase production and therefore, their market share, with lower fuel costs than those of the other electric utilities.

In short, the size and structure of ENDESA's generation business and the location of its plants give the Company a clear competitive edge.

Total capacity at the Company's natural gas combined-cycle plants at year end 2005 stood at 1,191 MW (to which a further 3,200 MW will be added in the period from 2006 to 2009). These units place ENDESA in a prominent position in the development of a technology that will make a considerable contribution to the reduction of polluting gas emissions and the energy efficiency in Spain.

Lastly, it should be noted that in 2005 ENDESA's fossil-fuel plants once again played an active role in the regulated secondary markets, in which any mismatches between supply and demand are optimized in real time. This was made possible by the Company's combustion gas desulphurization facilities, which make use of competitive fuels consistent with achieving significant improvements in the environmental impact.

2.5.1.2. ENDESA's electricity production under the ordinary regime in 2005

ENDESA's generation plants had a total net output of 91,505 GWh in 2005, down 2.1% compared to 2004. This drop was mainly due to the fact that the Valdeellos nuclear power station was closed for over six months, a unit at As Pontes power plant was down while being converted to burn imported coal and the fact that 2005 was a low rainfall year.

These factors led to a 6,731 GWh decrease in production, which was offset in part by the greater combined cycle output and power stations that burn imported coal. Furthermore, the fall in energy generated using domestically produced coal can be explained by the unavailability of an As Pontes unit due to its upgrade in 2005.

Particularly worthy of mention was the fact that ENDESA's mainland coal-fired facilities performed very efficiently, with a high load factor. The Company's use of local coal to produce electricity makes a contribution to meeting Spain's electricity needs and reducing its energy dependence, with the concomitant saving in the foreign exchange required for buying imported fuels, and to maintaining employment levels in mining areas, since coal mining often constitutes the main economic activity in geographical areas with few options when it comes to finding alternative employment.

As regards other technologies, mainland fuel-oil/gas production has only a token presence in ENDESA's production mix, and it is used almost exclusively to overcome transmission system limitations arising in specific areas.

The increase in demand in non-mainland systems were met with the new capacity installed by the Company at these sites in 2005, which totalled 294.98 MW. These systems produced 13,814 GWh in 2005, up 5% compared to 2004.

Also, a comparison of ENDESA's electricity output with demand in its markets evidences the Company's clear capacity to meet demand with electricity produced by its own facilities.

This means that, unlike the case of some of its competitors, in order to guarantee supply to its markets, ENDESA does not need to make any investments in new capacity other than those deriving from the organic growth of these markets or to cover capacity coming off stream via the installation of new power plants.

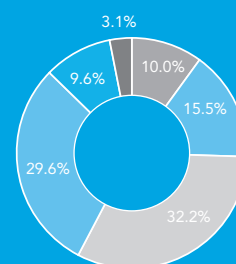
ENDESA ELECTRICITY PRODUCTION AT BUSBAR COST (GWh*)

	2005	2004	% chg.	% Total
Hydroelectric	7,479	10,310	-27.5	8.17
Nuclear	23,020	25,567	-10.0	25.16
Domestic coal	24,995	25,783	-3.1	27.31
Imported coal	12,023	11,420	5.3	13.14
Fuel-oil/gas	2,417	1,637	47.6	2.64
Combined cycle	7,757	6,039	28.4	8.48
TOTAL MAINLAND	77,691	80,756	-3.8	84.90
NONMAINLAND	13,814	13,150	5.0	15.01
TOTAL	91,505	93,906	-2.1	100.00

* In 2004 and 2005, Nuclenor's output is not included since equity consolidated by ENDESA.

ENDESA'S MAINLAND ELECTRICITY GENERATION STRUCTURE UNDER THE ORDINARY REGIME IN 2005

CCGT	10.0%
Imported coal	15.5%
Local coal	32.2%
Nuclear	29.6%
Hydroelectric	9.6%
Fuel-oil/gas	3.1%



2.5.1.3. New facilities, expansions and operating improvements

In 2005 ENDESA added 310.83 MW of capacity to its generation assets under the ordinary regime, mostly in combined cycle plants and diesel groups.

Below we describe the projects that were completed, carried out or initiated in 2005:

Mainland system

- In August 2005, the construction of an 813 MW combined cycle unit at the As Pontes fossil-fuel plant in La Coruña got underway. The unit is scheduled to be brought onstream in 2007.
- Unit 4 of the As Pontes fossil-fuel plant was brought back into service in July 2005 after being converted to use imported coal. Also,

the conversion was begun for unit 3, which is scheduled to be brought back onstream in 2006.

- The 387 MW combined cycle unit at the Cristóbal Colón fossil-fuel plant in Huelva entered its final stage of construction. The unit is scheduled to enter into service in early 2006.
- In August, the paperwork required to secure the substantive authorizations for the 800 MW combined cycle thermal unit at the Besós 5 fossil-fuel plant in Sant Adrià del Besòs in Barcelona were filed with the authorities.
- In December, plans to expand the outer harbour of El Ferrol port in La Coruña were finalized.
- Progress was made with the desulphurization plants for groups 4 and 5 of the Compostilla II power plant in León and contracts were placed for the desulphurization of the Los Barrios thermal plant in Cádiz required to comply with the EU environmental directive on large combustion plants.
- Progress was made in the work required to reduce NOx at the thermal units of coal-fired plants in order to comply with the aforementioned environmental directive. The measures taken include the installation of low-emission NOx burners and combustion management.

Balearic Islands

- In April, the 75 MW steam turbine that completes the Son Reus II combined-cycle plant in Mallorca was brought onstream.
- Work began on the 229 MW combined cycle unit at the Cas Trezorero 1 plant in Mallorca. The two 150 MW open cycle gas turbines are scheduled to enter into service in 2006.
- In June, a 25 MW gas turbine relocated from the Son Molines power plant in Mallorca to the Ibiza plant came on stream.
- The installation of two diesel units is underway at the Ibiza plant. They have a unit capacity of 18 MW and are scheduled to be brought onstream in 2007.
- In February, contracts were placed for the desulphurization project for thermal groups 1 and 2 of the Alcudia plant in Mallorca while other measures were taken to lower NOx emissions at the plant.

Canary Islands

- In November, the 75 MW steam turbine at the first combined cycle plant built at the Granadilla fossil-fuel plant located on the island of Tenerife came into service.
- Work continued on the installation of the 45 MW gas turbines on site at the Guía de Isora substation in Tenerife. These are slated to come onstream in 2006.
- In May, the 75 MW steam turbine for the 227 MW combined cycle plant installed at the Barranco de Tirajana 1 plant on the island of Gran Canaria came onstream. Also, in March construction began on the second combined cycle plant to be installed at the site. The two open cycle gas turbines, with a total capacity of 150 MW, are scheduled to become operational in 2006.

- Work began to bring into service two diesel units, with a generating capacity of 18 MW each, at the Punta Grande plant on Lanzarote island. They are scheduled to come onstream in 2006.
- Two diesel groups with a unit capacity of 18 MW entered into service in July and September, respectively, at the Las Salinas plant on the island of Fuerteventura.
- Installation work at the Los Guinchos plant on La Palma began on two diesel units with a unit capacity of 12 MW. They are expected to start operating in 2006.
- Two diesel units with a unit generating capacity of 3.5 MW entered into service in April and June, respectively, at the El Palmar power plant on the island of La Gomera. Installation work began on a 3.5 MW diesel unit scheduled to start operating in 2006.
- In October and December, two diesel units with a generation capacity of 2 MW each were brought online at the Llanos Blancos plant on El Hierro island.

Ceuta and Melilla

- Groups 7 and 8 of the Melilla plant were demolished and installation work at the site began on an 18 MW dieselgroup scheduled to come into service in 2006.
- The installation of an 18 MW diesel group at the Ceuta plant is underway and scheduled to become operational in 2006.

Mini-hydroelectric plants

- The 4.9 MW-capacity Aitona hydroelectric plant came onstream in September and the Rialb hydroelectric plant is scheduled for completion in 2006. These plants will have a joint installed capacity of 35.65 MW.

Biomass power generation

- Among new environmental measures, the Company continues to conduct the studies to evaluate the use of biomass at Endesa Generación thermal plants. Such studies include an assessment of biomass production at cyclical intervals throughout the year, supply logistics, load factor systems and gasifier specifications. The entry into service of biomass power generation facilities hinges on changes in the current legislation needed for the energy produced from this source at coal-fired thermal plants to be recognized as a renewable energy.

Biodiesel projects

- In May 2005, Endesa Generación purchased shares of Green Fuel Corporación S.A., a company that seeks to lead biodiesel production in Spain through three projects underway in Extremadura, Castilla-La Mancha and Andalusia.

Photovoltaic and thermalsolar projects

- ENDESA is assessing the viability of several projects involving solar power generation using photovoltaic and thermalsolar systems.

2.5.5. Renewables/CHP

ENDESA operates in renewable energy and cogeneration segment through ENDESA Cogeneración y Renovables (ECyR).

At year end 2005 cogeneration and renewable energy plants in service or under construction in which ENDESA had a stake in Spain had a total installed capacity of 2,301 MW, of which 1,844 MW correspond to renewable energy facilities and 457 MW to cogeneration and waste treatment plants.

In addition, the Company has stakes in cogeneration and renewable energy plants in Portugal (in operation or under construction), with a total capacity of 289 MW at year end 2005. Some 169 MW of the total correspond to renewable energy and 120 MW to cogeneration facilities.

Lastly, ECyR has a stake in cogeneration plants in Colombia and Mexico with a total capacity of 36 MW.

On the basis of the Company's stakes in these ventures, the output of cogeneration and renewable energy facilities in Spain attributable to ENDESA totalled 2,120 GWh in 2005, of which, 1,499 GWh were produced by wind-powered plants, 518 GWh by mini-hydroelectric plants and the remaining 103 GWh by cogeneration plants and other technologies.

In 2005 the Company brought the following renewable energy facilities into service:

- Valpardo 21.25 MW wind farm in Castilla y León
- Saso Plano 39.2 MW wind farm in Aragón
- Aitona 4.95 mini-hydroelectric plant in Catalonia

In addition, ECyR became the sole shareholder of Portuguese company Finerge Gestao de Projectos Energéticos, S.A. (FINERGE), a flagship company of a holding that operates wind farms and cogeneration facilities in Portugal, with a total installed capacity of 107 MW in 2005.

As regards divestments made in 2005, the Company sold its 7.3% share in kW Tarifa (owner of 29.7 MW of wind plant) and 99% of Electromariola (owner of a 5.7 MW cogeneration plant). In addition, ENDESA sold Covitrel, in which it held a 30% stake, equivalent to 3.9 MW.

At the end of 2005, ENDESA had a share of 11.84% of total renewables/CHP production in Spain: 9.48% in cogeneration and waste treatment, and 16% in renewable energies. ENDESA's average stake in these facilities is 63%, which affords it an attributable capacity of 1,349 MW on the basis of its percentage of ownership in each holding. Its total consolidated capacity was 1,007 MW.

2.5.3. Breakdown by technology

- **Wind power.** At year end 2005, ENDESA had stakes in wind farms in Spain with a total capacity of 1,131 MW in service and 412 MW

under construction, giving it a share of 15.42% of the Spanish wind power market. ENDESA's average stake in these wind farms is 75%.

- **Mini-hydroelectric plants.** At year end 2005, ENDESA had stakes in 37 mini-hydroelectric plants in service with a total capacity of 206 MW, as well as in two plants currently under construction that will have a joint installed capacity of 29 MW.
- **Waste treatment.** ENDESA has stakes in four waste treatment plants with an aggregate capacity of 75 MW. Three of these are urban solid waste plants (Tirme, Tirmadrid and TRM) and the fourth uses other types of industrial waste.
- **Biomass.** ENDESA has stakes in six biomass plants in service with a total capacity of 59 MW. Three of these are biogas plants, of which one is located at the Aguas de Jerez (Cádiz) waste water treatment plant and the other two are located at the Can Mata and El Garraf urban solid waste landfills in the province of Barcelona.
- **Cogeneration.** At the end of 2005, ENDESA had stakes in cogeneration plants in service with a total capacity of 533 MW, of which 382 MW (71.7%) were located in Spain, 115 MW (21.6%) in Portugal and 36 MW (6.7%) in Latin America.
- **Other technologies.** ENDESA has ownership interests in several other types of renewable energy facilities (photovoltaic solar, environmentally friendly...) with a total capacity of 6 MW.

2.6. COAL MINING

In 2005 ENDESA mined a total of 7.2 million tonnes of coal, equivalent to 17,388 million therms, down 7% compared to 2004 measured by tonnes and 5.4% measured by therms.

This volume accounts for approximately 37% of total domestic coal production in tonnes.

ENDESA'S COAL PRODUCTION BY TYPE OF COAL

Producer	Type of coal	Millions of L.H.V. Therms		
		2005	2004	% Var.
Endesa Generación	Brown lignite	9,285	10,323	-10.1
Endesa Generación	Brown lignite	2,948	2,882	2.3
Encasur	Bituminous coal	4,125	4,034	2.3
Encasur	Anthracite	1,030	1,138	-9.5
TOTAL		17,388	18,377	-5.4

L.H.V.= Low Heating Value

The mines from which coal for ENDESA's production was extracted included the large open-pit As Pontes de García Rodríguez (La Coruña) mine; three mines in the Andorra (Teruel), one of which is underground (Oportuna) and two (Gargallo and Gargallo Oeste) open-pit; three mines in the Guadiato (Córdoba) coalfield, one of which (María) is underground and two (Cervantes and Ballesta Este) are open-

pit; and, lastly, an open-pit mine (Emma) in Puertollano (Ciudad Real).

We note that two of ENDESA's remaining underground mines, Oportuna and María, were closed last year.

Total coal sales fell by 4.5% with respect to 2004 (measured in therms). This was slightly higher than output, therefore stocks decreased slightly.

BREAKDOWN OF ENDESA'S COAL PRODUCTION

Receiving company	Destination plant	Millions of L.H.V. Therms		% Var.
		2005	2004	
Endesa Generación	As Pontes	9,285	10,323	-10.1
Endesa Generación	Teruel	2,948	2,882	2.3
Elcogas	Puertollano GICC	1,073	1,061	1.1
Viesgo Generación	Puente Nuevo	2,077	2,122	-2.1
Viesgo Generación	Puertollano	2,253	2,072	8.7
Other	Household boilers	0	0	
TOTAL		17,636	18,460	-4.5

L.H.V. Low Heating Value

69.4% of this production was supplied to Endesa Generación, 6.1% to the Group's Elcogas holding and 24.5% to Viesgo Generación.

3. ENDESA IN THE PORTUGUESE ELECTRICITY INDUSTRY

ENDESA's presence in the Portuguese electricity system is mostly linked to generation activities resulting from its stakes in Tejo Energía and cogeneration plants, and to selling electricity to end customers in the deregulated market.

3.1. GENERATION

ENDESA has a 38.9% holding in Tejo Energía, which owns the Pego 600 MW coal-fired plant, one of the largest in Portugal.

This plant has long term agreements in place to sell its power to the Portuguese system. In 2005 it produced 4,702 GWh of energy, up approximately 6% from 2004.

Also, ENDESA and Sonae, one of the leading Portuguese industrial groups, each hold a 50% stake in Sociedade Termica Portuguesa, which leads the Portuguese cogeneration market with capacity of 71 MW.

Furthermore, ENDESA became the sole shareholder of FINERGE in 2005, which by year-end had a capacity of 107 MW and projects underway aimed at achieving a capacity of 320 MW in 2007.

3.2. SALES TO DEREGULATED MARKET CUSTOMERS

In 2005, ENDESA continued to consolidate its position in the Portuguese deregulated market, in which it made sales totalling 2,223 GWh, a 23.6% increase on 2004. As of 30 November, 2005, it had secured a market share of 23.2% and that same month, ENDESA had 919 supply points.

Since 2002 ENDESA has operated in this market through Sodesa, a joint venture owned on an equal-footing with the Portuguese industrial group Sonae. Sodesa is currently the second largest retailer in the Portuguese deregulated market.

4. GAS INDUSTRY

ENDESA carries out business activities in the regulated and deregulated gas markets.

The Company has significantly increased its presence in this market in recent years, and has now achieved a particularly significant position in sales of integrated electricity and gas services to end customers.

4.1. THE SPANISH NATURAL GAS MARKET IN 2005

In 2005, the Spanish natural gas market continued down the path towards growth witnessed in recent years. Natural gas sales in the first eleven months of the year totalled 338,863 GWh, up 18% compared to 2004.

One of the main factors behind this growth was the increase in demand from the new combined cycle plants.

Natural gas used in the production of electricity grew by 68% in the first eleven months of the year with respect to the same period in 2004 and accounted for 30% of total natural gas consumption.

To June 2005, 99.45% of Spain's demand for natural gas was covered by imports, of which 43.4% came from Algeria, 17.8% from Nigeria, 27.9% from the Gulf States, 6.1% from Norway, 2.2% from Libya, .6% from Trinidad and Tobago and 2.9% from other countries.

The deregulated natural gas market in Spain continued to grow throughout the year. In November, the market accounted for 83.1% of total gas sales measured in energy terms, compared to 80% in 2004. As at 30 June, there were 1,797,787 end customers in the deregulated market, i.e. 30.5% of total customers.

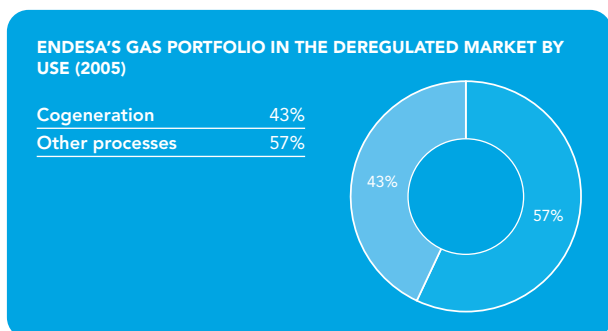
4.2. ENDESA IN THE SPANISH NATURAL GAS MARKET

ENDESA operates in the three natural gas market segments in Spain: supply of gas to customers in the deregulated market, distribution and supply of gas to customers in the regulated market and, lastly, participation in LNG receiving, storage, regasification and transmission projects.

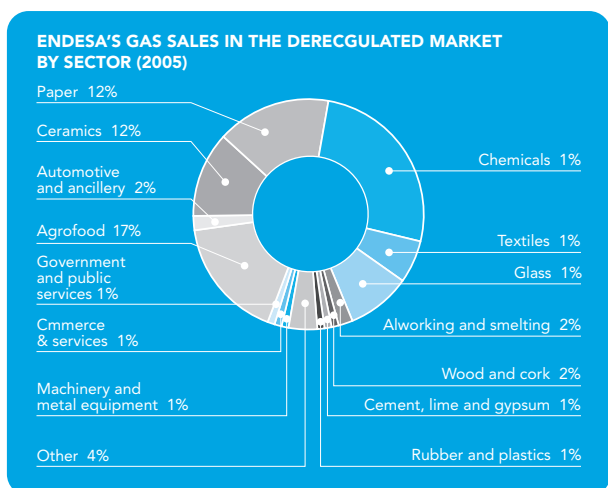
4.2.1. Gas sales in the deregulated market

As of 31 December, 2005, ENDESA had 348,395 customers on the deregulated natural gas market, with an annual volume of gas traded of 24,947 GWh, as compared with 18,562 GWh in 2004 (a 34.4% increase.)

18,558 GWh of natural gas were sold by ENDESA to 221,719 customers in the deregulated market in 2005 (an increase of 58.2% on 2004). The customer base also grew strongly due to the acceleration of the deregulation process, particularly in the low-pressure segment.



Adding the consumption of Endesa Generación (dual-fuel and combined cycle plants), which amounted to 22,222 GWh in 2005, to the aforementioned figure, the Company's share in the deregulated market in Spain stands at 10.9% (12% for the entire market).



4.2.2. ENDESA in the regulated gas market

ENDESA operates in the gas distribution industry in Spain through its wholly owned subsidiary Endesa Gas, which groups together the Company's holdings in the gas distribution and sales at tariff activities.

4.2.2.1. Distribution areas and markets served

Endesa Gas operates in seven autonomous communities and is authorized to distribute piped gas to over 150 municipalities.

At year end 2005, it supplied a total volume of 5,713 GWh of gas to 325,127 consumers and sales stood at 4,037 GWh. Its market share based on data taken at the end of the third quarter was calculated at over 6%. These figures reflect an 8% increase in the Company's customer base, an 18% increase in the volume of power supplied compared to 2004 and a 1.5% decrease in sales.

Energy distributed by Endesa Gas for use by the Group or by third parties totalled 8,197 GWh in the Iberian market as a whole in 2005, up 13% on 2004.

4.2.2.2. Endesa Gas stakes in gas utilities

In Spain, Endesa Gas distributes natural gas through Gas Aragón (Aragón), in which it has a holding of 60.67%; Distribuidora Regional del Gas (Castilla y León), in which it holds a 45% stake; D.C. Gas Extremadura, in which its holding totals 47%; and Gesa Gas (Balearic Islands), Meridional de Gas (Andalusia) and Gas Alicante (Valencia). It is the sole shareholder in the latter three companies.

	Consumers	Volume of power supplied GWh
Gas Aragón	165,938	3,235.4
Gesa Gas	86,130	536.3
D. Regional del Gas	15,862	860.1
D.C. Gas Extremadura	37,536	134.0
Gas Meridional	14,809	907.2
Gas Alicante	4,832	39.7
TOTAL	325,107	5,712.9

The consolidation of the gas companies forming part of Endesa Gas and the current standing of the gas industry in Spain offer attractive growth prospects with the Company's estimated customer base in the Spanish market standing at 500,000 in 2010.

4.2.3. Transport distribution infrastructure

ENDESA operates in the gas transport industry through Endesa Gas Transportista, S.L. (100% owned), Transportista Regional del Gas, S.A. (45% owned) and Gas Extremadura Transportista, S.L. (40%

owned). Together, these three companies have a transport network of 298 km.

ENDESA is currently building or designing several gas pipelines that will give the Company a 720 km gas transport network by late 2007.

In the first ten months of 2005, Endesa Gas distributors built 335 km of gas pipeline, giving them a total distribution network of 2,874 km, up 13% on 2004. Investment made in the networks for these new stretches totalled Euro 20.8 million.

	km in 2005	Total km in 2005
Gas Aragón	119	1,132
Gesa Gas	30	637
D. Regional del Gas	22	256
D.C. Gas Extremadura	64	421
Gas Meridional	80	320
Gas Alicante	20	108
TOTAL	335	2,874

ENDESA also worked on the construction of several gas pipelines in 2005. We highlight the following:

- Brought into service in 2005:
 - Jerez-El Puerto de Santa María gas pipeline (16 km).
 - Platea-Fuenfresca gas pipeline (14.6 km).
 - El Burgo de Ebro gas pipeline (4.7 km).
- Being designed or under construction in 2005:
 - Zaragoza-Calatayud gas pipeline (70 km).
 - Cella-Calamocha gas pipeline (56.7 km).
 - Segovia-Ávila gas pipeline (67.7 km).
 - Medina-Arévalo gas pipeline (29.7 km).
 - Salamanca-Peñaranda gas pipeline (52.9 km).
 - Fraga-Mequinzenza gas pipeline (10 km).
 - Alagón-La Joyosa-Sobradiel gas pipeline (17 km).
 - Gallur-Tauste-Ejea gas pipeline (39 km).
 - Bahía de Cádiz gas pipeline (24 km).
 - Costa Noroeste de Cádiz gas pipeline (22 km).

4.2.4. Receiving, storage and regasification projects

ENDESA has stakes in three Liquefied Natural Gas (LNG) Maritime Regasification Terminal projects currently underway:

- Reganosa, in which Endesa has a stake of 21%, in Mugardos (La Coruña). The plant will include a 130 km gas pipeline network and a storage and regasification capacity of 300,000 m³, allowing it to distribute 412,500 Nm³/h (3.6 bcm/year) of natural gas.

- Planta Regasificadora de Sagunto, S.A. in Sagunto (Valencia), in which ENDESA has a 20% stake. The facility will have a storage capacity of 300,000 m³ and regasification capacity of 600,000 Nm³/h (5.25 bcm/year). The facilities are expected to be expanded in the future.

- Gasificadora de Canarias (Gascan), in which the Company has a majority stake. The studies and preliminary work is currently underway for new projects on the islands of Gran Canaria and Tenerife. Each of these plants is designed a storage capacity of 150,000 m³ and a regasification capacity of 210,000 Nm³/h (1.8 bcm/year).

- In addition, ENDESA has a 12% stake in the technical and economic viability study for the new gas pipeline that will connect Algeria and Spain directly via Almeria scheduled to enter into service in 2009.

4.3. SALE OF STAKES IN PORTUGUESE DISTRIBUTORS PORTGAS AND SETGAS IN 2006

As of 31 December 2005, ENDESA operated in the regulated natural gas market in Portugal through its stakes in Portgas (12.42%) and Setgas (9.71%), which supply piped gas in Porto and other cities in northern Portugal, Setúbal and other cities in southern Portugal, respectively. In addition, ENDESA's stake in these two companies was a result of its 49% share in NFQ, to which both companies belong.

2,484 GWh of gas was distributed through these companies' networks in the first eleven months of 2005 and the total number of customers for both climbed to 255,518 by the end of the period.

In January 2006, ENDESA reached an agreement with Electricidade de Portugal (EDP) to sell its 49% share in NFQ and by extension, its stakes in the two gas distributors mentioned above.

The transaction, pending approval as this publication goes to press, will total Euro 57 million, yielding a gross capital gain of Euro 35 million, according to preliminary data, which will be booked in ENDESA's accounts once the sale is complete.





ELECTRICITY BUSINESS IN EUROPE

ENDESA is one of the five leading electric utilities in Europe.

Outside the Iberian market the Group's strategy has focused on acquiring majority holdings in generation companies, particularly in the Mediterranean area, in order to obtain significant volumes of power and good access to these markets to take advantage of the opportunities arising from their deregulation. Secondly, taking advantage of new markets opening up which offer high growth potential and give ENDESA the opportunity to use its experience to create operating efficiencies in generation plants.

The success of this strategy has enabled ENDESA to complement its leadership position in the Spanish and Portuguese electricity market with a strong position in the generation business in Italy and France, retail activities in the deregulated markets of these and other European countries, various activities on the continent's wholesale markets, electricity exchanges with neighbouring countries, and holdings in Morocco's generation facilities, which, given its location in the Mediterranean basin, falls under the auspices of ENDESA's European activities. Also, ENDESA has entered the Polish electricity market (Gielda Energii) in tandem with local partners and recently signed an agreement with the Polish Ministry of Finance to acquire 85% of the company Dolna Odra (owner of three plants with a total installed capacity of 1,960 MW).

The Company's target is to consolidate its position, leveraging value and creating growth opportunities based on financial criteria and a flexible expansion strategy.

In this section we discuss Endesa Europa, the ENDESA subsidiary managing the company's assets in European countries outside of Spain and Portugal, and in Morocco.

1. ENDESA IN EUROPE: KEY DATA

At year end 2005, ENDESA's installed capacity in Europe stood at 9,397MW, of which 6,590MW corresponded to Endesa Italia and 2,807MW to the French company Snet.

Total output was 33,749 GWh (23,362 GWh generated by Endesa Italia and 10,387 GWh by Snet).

Sales totalled 47,221 GWh, of which 30,911 GWh corresponded to Endesa Italia and 16,310 GWh to Snet. Sales to deregulated customers in these two countries stood at 13,064 GWh in Italy and 4,694 GWh in France.

2. GENERATION BUSINESS

2.1. ITALY

ENDESA has a controlling stake of 80% in Endesa Italia following several operations carried out since September 2001 when a consor-

tium headed by the Company was awarded the Italian generator then known as Elettrogen.

This consortium was made up of ENDESA (45%), SCH (40%) and Italian power company ASM Brescia (15%).

In 2002, ENDESA acquired SCH's additional 5.7% stake in the generator and changed its name to Endesa Italia. In 2004 ENDESA acquired the bank's remaining 34.3% stake in the Italian group and finally on 1 February 2005 it sold ASM Brescia 5.3% of its total stake. As a consequence of this, ENDESA now holds 80% of Endesa Italia and ASM Brescia the remaining 20%.

The sale of the 5.3% stake to ASM was made at a price of Euro 159 million. This implies a net asset value for Endesa Italia of Euro 2,989 million, 36.4% more than the price paid when the Italian company was first acquired. The sale generated a net capital gain of Euro 24 million.

ENDESA's controlling stake allows the utility to manage a company with enormous growth potential giving it a substantial position in one of the most attractive and strategically important electricity markets in Europe.

Endesa Italia is Italy's third largest generator, with a market share of 8% and installed capacity of 6,590 MW. Its generation assets include several thermal plants: Tavazzano (1,840 MW), Monfalcone (976 MW), Ostiglia (1,530 MW), Fiume Santo (1,040 MW) and Trapani (170 MW); the Terni 530 MW, Cotronei (369 MW) and Catanzaro (115 MW) hydroelectric plants and the Florinas (20 MW) wind farm.

Net generation output stood at 23,362 GWh in 2005, an increase of 12% vs. 2004, due mainly to the conversion of the Ostiglia plant's group 3 and the Tavazzano plant's group 6 to a combined cycle generator which started operating and the start-up of two turbo-gas groups at the Fiume Santo plant.

The company reported sales of 30,911 GWh, an increase of 17.8% on 2004, as a result of higher output and a 41% rise in power purchases from third parties. A large part of this increase can be attributed to Endesa Europa taking advantage of its position in France allowing Endesa Italia to increase its energy imports from 371 GWh in 2004 to 1,658 GWh in 2005.

The conversion of the Ostiglia plant's group 3 and the Tavazzano plant's group 6 is part of Endesa Italia's thermal plant repowering programme initiated in 2002. This programme entails the conversion of these plants to more efficient and environmental-friendly technologies, while also significantly increasing their installed capacity.

Within the framework of this programme, the following have already been converted to combined cycle generation: groups 1, 2 and 3 of the Ostiglia plant and groups 5 and 6 of the Tavazzano plant. Groups 3 and 4 of the Fiume Santo plant have been converted to coal, leaving the re-conversion of groups 3 and 4 of the Monfalcone plant left to be completed.

Additionally, construction work for the desulphurisers for groups 1 and 2 of the Monfalcone plant is now underway. This will significantly reduce emissions.

ENDESA ITALIA POWER PLANTS



Lastly, we would highlight that in compliance with EU regulations governing Kyoto commitments, Endesa Italia has booked the Euro 21 million estimated cost of CO₂ emissions in 2005, which are not expected to be covered by the emission rights to be distributed by the Italian government as put forward in the proposal sent to the European Union and which has yet to be ratified.

2.1.1. The renewables business in Italy

Endesa Italia still produces electricity using renewable energies at its 20 MW Florinas wind farm located in the Sardinian region of the same name and uses animal flour for combustion in the coal groups of the Monfalcone plant.

On 5 August 2005 the group was awarded two EPC contracts for the construction of wind farms in Trapani and Vizzini (total installed capacity of 56.1MW) belonging to IDAS, 100% owned by Endesa Italia. Total investment in the construction of the two plants will be Euro 59 million and they are scheduled to start operating in 2006.

According to the Framework Agreement between Gamesa and ENDESA for 200 MW of operating wind farm before 2007, the delivery of the 14 MW Iardino Srl (Naples) wind farm is expected to take place in early 2006.

2.1.2. Other Endesa Europa projects in Italy

In 2005, the preliminary work for the construction of the Scandale plant started. This plant is owned by Eurosviluppo Elettrica (50/50 Endesa Europa and ASM Brescia).

Eurosviluppo Elettrica has the land and permits required to construct two 400MW combined cycles producing both electricity and heat. The plant is scheduled to come on-stream in 2008.

In 2005, Endesa Italia also signed an agreement of intent to build a re-gasification terminal in Livorno. Through this agreement Endesa Italia will be able to acquire up to 25% of the company owning the terminal and have access to re-gasification capacity of up to 2bcm.

2.1.3. Meeting targets

Endesa Italia followed its business plan throughout 2005.

In addition to raising its output and sales, we highlight the following key achievements:

- Growth in EBITDA and net income in a context of stable margins.
- Significant progress made in the repowering programme.
- Refinancing of Euro 700 million in debt.

- The headcount was reduced by a further 2%, and now is 35% smaller than it was when ENDESA took control. The reductions have been made on non-hostile terms.

2.2. FRANCE

In September 2004, ENDESA acquired an additional 35% stake in the French generation company Snet from Charbonnages de France (CdF). A 30% stake had already been acquired in 2001 so this operation put ENDESA's interest in Snet at 65%. The remaining shareholders are CdF and Electricité de France (EdF).

ENDESA now holds a controlling stake in Snet and has a significant presence on the French electricity market. The cost of the operation, including the Euro 450 million that ENDESA paid for its earlier 30% stake, totalled Euro 571 million.

Snet has four thermal coal plants in France, with total installed capacity of 2,477MW, producing 8,689 GWh of electricity in 2005. The plants are located in different areas of France: Emile Huchet (north east) with installed capacity of 1,086MW; Hornaing (north) with installed capacity of 253MW; Gardanne (south) installed capacity of 868MW and Lucy 3 (centre) with installed capacity of 270MW. The bulk of production is sold to Electricité de France (EdF).



In 2005, assembly work began on the desulphurisation and denitrification systems for two 600MW groups: Provence 5 and Emile Huchet 6. These systems will allow both groups to comply with the EU Directive limiting the emissions produced at large combustion facilities. Investment in the project will total Euro 156 million.

Snet reported sales of 16,310 GWh in 2005, of which 10,387 GWh corresponded to its own production and 5,923 GWh were power purchases from third parties. The group sold 4,694 GWh of power to 159 customers on the de-regulated French market.

On 26 February 2005 the National Allocation Plan for (NAP) for CO₂ emissions was published in France. The plan assigned Snet 9,065 Mt/year for 2005-2007. This is considered to be sufficient to cover Snet's CO₂ requirements.

2.2.1. Snet's holdings

In 2005, Snet acquired an additional 4.36% of the Polish co-generation plant Bialystok (178 MWe and 468 MWt, equivalent to 330 MWe) which produced 1,698 GWh of power during the year. Following this operation, Snet has a controlling stake of 69.58% in this plant.

Snet also has a 20% in Soprolif, the French company which owns a circulating fluid bed plant with installed capacity of 250 MW. The remaining shareholders are EdF, with 55%, and ENDESA, with 25%.

Snet holds, together with Alarco, 50% of the Altek group (Turkey). This company has 40MW of installed hydro capacity and at the end of 2005 inaugurated a 80MW CCGT plant at Kirklareli.

2.2.2 Meeting targets

Snet's main P&L balance figures have all performed well, allowing the group to meet its objectives. We highlight the following achievements:

- In 2005 the headcount was reduced by 121 employees in France and 139 in Poland, a total of 20%.
- Fixed operating costs and maintenance costs fell by 23% in 2005 on the previous year.
- The merger of Setne, Setcm and Sodelif with Snet was completed successfully.
- In May, the construction permit was obtained for the 9.2MW Lehacourt wind farm project, which is scheduled to start up in the second half of 2006.
- Snet sold the investment fund Ecofin Ltd its 23.62% stake in Séchillienne-Sidéc for Euro 103.6 million. generating a gross capital gain of Euro 67.9 million.
- Snet paid out dividends for the first time in 2005. The interim dividend was Euro 21.2 million.
- EBITDA grew by 20% and recurrent net income by 44%.

2.3. POLAND

ENDESA won the tender for Dolna Odra (Poland), owner of three plants with an installed capacity of 1,960 MW, within the framework of the privatisation of this company.

On 9 January 2006, the European Commission authorised the operation and ENDESA expects to complete the transaction in the first weeks of the same year.

As we stated previously, ENDESA is present in Poland through the controlling stake held by Snet in the 330 MW Bialystok plant, and its 10% holding in the Polish market (Gielda Energii).

3. POWER MANAGEMENT AND WHOLESALE MARKETS

3.1. ACTIVITIES IN THE EUROPEAN WHOLESALE MARKETS

ENDESA operates in the European wholesale markets to administrate its generation and supply activities outside the Iberian area.

Among other targets, this move gives the group the necessary power supply to meet its contracts with European customers and balance out risk positions in those areas where it operates. Endesa Trading is the subsidiary responsible for this activity.

In 2005, activity in the European wholesale markets was shaped by CO₂ emission rights and the rise in crude and natural gas prices. These factors led to generalised energy price increases, with supply contracts for 2006 rising almost 50%.

This came on top of adverse weather conditions at the end of the year, natural gas supply difficulties—especially in the UK—and unexpected technical problems on the networks in France and Germany. This pushed spot prices up to highs unseen since 2003. The knock on effect caused by these problems and the difficulties in finding short term solutions affected other products; i.e. monthly, quarterly and even annual products.

Also, volumes traded through bilateral contracts increased in organised markets such as Powernext, EEX or APX. Therefore, the EEX reached 66 TWh in 2005, up 12% vs. 2004; the APX climbed to 16 TWh, up 19% and the French market Powernext (where ENDESA holds a 5% stake) recorded a figure of 19 TWh, up 34%.

The futures markets also performed well – particularly EEX (the most liquid), Powernext and ENDEX. CO₂ trading on several of these markets contributed to this good performance.

Electricity futures rose significantly during 2005. and the base price for 2006, Euro 34.5/MWh in Germany at the start of 2005, rose to Euro 51.4 /MWh at the end of the year. Also, average spot prices in 2005 increased sharply in France and Germany. The average base price for both was Euro 45/MWh vs. c. Euro 28/MWh in 2004.

In 2005, Endesa Trading handled total energy volumes of 49.46 TWh from operations with Italian customers (9.7 TWh), Endesa Energía (2.7 TWh) and Snet (1.97 TWh), direct supply contracts with large industrial customers and others, and import and export operations via the interconnections existing between Spain, France, Germany, Holland, Belgium, Denmark, Italy and Slovenia.

We highlight the energy obtained in virtual capacity auctions (VPP) held by Electricité de France whose associated activities accounted for volumes of 1.03 TWh.

3.2. INTERNATIONAL EXCHANGES

In 2005, international interconnection capacity was assigned by grid operators via a series of co-ordinated auctions.

Power was still exported from France to the UK (2,000 MW at year end 2005), Italy, Switzerland and, to a lesser extent, Spain.

However, the balance of the exchange between France and Germany altered as the latter was no longer a net importer of energy from France, becoming mostly an exporter.

With regard to trading activities, we highlight the ENDESA's operations on the France-Italy interconnection, which on occasion accounts for up to half the energy auctioned (i.e. some 250 MW) and the entry of new countries, such as Denmark and Slovenia, in 2006. These countries may acquire virtual and interconnection capacity with Germany and Italy respectively for this year in auctions organised by local operators or participate in the existing interconnection between France and Germany.

In 2005, energy transmitted via trading activities from France to Italy stood at 1.35 TWh. With regard to interconnections in France, power imports from Spain stood at 2.24 TWh while exports were only 271 GWh.

Through these operations the Group was able to supply energy to Endesa Energía's customers abroad and make wholesale sales to other grids. The remaining energy needed to supply Endesa Energía's other European customers was obtained via purchases made by Endesa Trading.

3.3. CO₂ EMISSIONS MARKET

As we have already seen in 2005 the first phase of the Emission Trading Directive (2005-2007) was implemented, with each country publishing its Allocation Plan for Emission Rights and the creation of National Emissions Registries.

In this context, several spot markets were created for emission rights –mostly on wholesale markets on which electricity was already traded (Powernext, Nordpool, EEX, etc).–. Energy supplied via these markets is estimated at some 260 million tonnes.

During the year, Endesa Trading channelled purchases and sales of CO₂ emission rights between Snet and Endesa Italia to the tune of 2.98 million Mt. We note that the starting price for emissions rights fluctuated between Euro 8 and 10/Mt, while by the end of 2005 it was around Euro 21/Mt.

4. ENDESA IN MOROCCO

On 19 January 2005, commercial activities started at the Tahaddart CCGT plant in Morocco.

This plant, with installed capacity of 400 MW and located in the town of the same name, is the result of an agreement made in 2001 to incorporate Energie Électrique de Tahaddart, S.A., the company in charge of the construction and use of the plant. The company is owned by the Moroccan group Office National d'Electricité (ONE), with a 48% stake, ENDESA, with 32% and Siemens, with 20%.

Tahaddart is the first combined cycle plant to be built in Morocco and represents 9% of the country's total installed capacity and 13% of its thermal capacity. It supplies approximately 17% of the total energy consumed in Morocco.

Also, in January 2005, ENDESA sold its 18% stake in Lydec (a water, electricity and sanitation services company based in Casablanca) to the insurance group Al Watanya, for Euro 26 million. This generated a capital gain of Euro 12 million.

In January 2006 an agreement was signed with ONE to construct an 800MW combined cycle plant in Al Wahda. ENDESA will be the technical manager on this project in which it holds a 20% stake.

ENDESA IN EUROPE AND NORTH AFRICA IN 2005

(does not include the Iberian market)

Electricity sales in European countries:
47,221 GWh*

Present in deregulated markets of
France, Italy, Germany and Andorra

Total energy volume traded
49.46 TWh

FRANCE

- 65% of generation company SNET
Installed capacity: 2,477 MW;
Generation: 8,689 GWh
Total sales: 16,310 GWh
- 25% of generation company Soprolif
Installed capacity: 250 MW;
- 5% of Energy Exchange Powernext
Volume traded: 19,000 GWh

- 2% of the free central European exchange APX with headquarters in Amsterdam

POLAND

- 10% of wholesale market operator Gielda Energii
- 70% of Bialystok plant (**)
Installed capacity: 330 MWe
Generation & sales: 1,698 GWh

ITALY

- 80% of generation company Endesa Italia
Installed capacity: 6,590 MW
Generation: 23,362 GWh
Sales: 30,911 GWh
- 72% of Florinas wind farm (Sardinia)
Installed capacity: 20 MW
- 50% of Eurosviluppo Elettrica (800 MW under construction at Scandale)
- 50% of retailer Ergon Energia

MOROCCO

- 32% of Energie Electrique de Tahaddart, owner of the Tahaddart combined cycle plant.
Installed capacity: 400 MW

TURKEY

- 50% of Altek (**) owner of a 40 MW hydroelectric plant and an 80 MW gas CCGT

* Does not include 2,386 GWh traded by Endesa Energía in European countries outside of Spain

** Through Snet.



ELECTRICITY BUSINESS IN LATIN AMERICA

ENDESA is the leading private electricity multinational in Latin America. It is the leading electric utility in Chile, Argentina, Colombia and Peru, and the third largest in Brazil. It supplies electricity to five of the sub-continent's six largest cities (Buenos Aires, Bogotá, Santiago de Chile, Lima and Río de Janeiro) and will participate in the Siepac electricity interconnection system that will link the six Central American countries.

ENDESA's strategy in Latin America is to build up a broad range of businesses which will allow it to leverage the huge potential for growth and profitability offered by the region's electricity market.

To this end, it has acquired majority interests in a considerable number of electricity generation, transport, distribution and supply companies with the aim of securing management control and therefore establishing a position from which to pass on its corporate best practices to these companies. The Group has invested with the clear intention of building a long-term presence in Latin America, working in collaboration with the national authorities and within the existing regulatory frameworks.

ENDESA is present in Latin America through shareholdings such as its 60.62% stake in Enersis, or stakes acquired directly in other operators in the region.

The electric utilities in which ENDESA has interests in Latin America had total installed capacity of 14,095 MW at the close of 2005. Their aggregate output in the year was 57,890 GWh – a 5.1% advance on 2004 – with sales of 55,246 GWh, i.e. 5.6% more than in 2004, to a total of 11.2 million clients.

In the Latin American market, ENDESA has achieved the dimension set out in its corporate strategy. Its objectives for this market are to consolidate this presence, capitalise on its current growth platform, maintain its leadership position in the areas where it operates, enhance the operating excellence of its subsidiaries and take advantage of the opportunities arising from the incipient economic recovery and upturn in electricity demand currently being seen in the countries in which the Company has a presence.

ENDESA is firmly committed to the environment in the Latin American countries where it operates and many of its generating and distribution plants have received certification under the ISO 14.001 environmental quality standard.

At year end 2005, approximately 93% of the Group's generation plants had been awarded this certification and this figure is expected to be close to 100% by the end of 2006. Also, as of 31 December, 2005, approximately 76% of ENDESA's distribution facilities in the region had received certification and this is expected to reach almost 100% by the end of 2006. It should be these high levels of certification have been achieved in a period of only five years.

1. GENERATION

At year end 2005 ENDESA's holdings in Latin America had a total installed capacity of 14,095 MW.

ENDESA INSTALLED CAPACITY IN LATIN AMERICA*

	MW		Chg. (%)
	2005	2004	
Chile	4,477	4,477	0.0
Argentina	4,493	4,492	0.0
Colombia	2,657	2,609	1.8
Peru	1,429	1,436	-0.5
Brazil	1,039	1,039	0.0
TOTAL	14,095	14,053	0.3

* Figures only include fully consolidated companies. Therefore, they do not include the 781 MW relating to the Atacama (Chile) power plant.

Total output for its Latin American subsidiaries was 57,890 GWh in 2005, a 5.1% increase over the previous year .

ENDESA POWER GENERATION IN LATIN AMERICA*

	GWh		Chg. (%)
	2005	2004	
Chile	18,764	16,797	11.7
Argentina	16,154	15,884	1.7
Colombia	11,864	11,881	-0.1
Peru	6,895	5,655	21.9
Brazil	4,213	4,889	-13.8
TOTAL	57,890	55,106	5.1

* Figures only relate to fully consolidated companies. Therefore, they do not include output from the Atacama (Chile) power plant.

Gas supply restrictions in Argentina remained in place throughout 2005, affecting the power plants which use this fuel. Likewise, gas exports to Chile were reduced, impacting generation in that country.

The effect of the supply restrictions in Argentina was palliated to some degree by the fact that most of ENDESA's fossil-fuel power plants in that country are equipped with dual-fuel technology which enables them to use either fuel-oil or gas.

In Chile, the San Isidro I power plant was the most affected by gas supply restrictions, although this was offset by the high rainfall and the contribution of the Ralco hydroelectric power plant, which came on stream in September 2004.

Generation in Peru rose by 21.9%. This increase was mainly due to the Etevensa power plant operating in open mode with gas from the

Camisea field for the entire year, compared with only four months in 2004.

The fall in production in Brazil was due to the lack of available gas from Petrobras, which led to a 74% drop in generation at the Fortaleza power plant.

1.1. NEW POWER PLANT PROJECTS

ENDESA continues to leverage the investment opportunities offered by the generation business in Latin America. The company currently has several plants under construction in Chile and Peru on which work was carried out in 2005.

1.1.1. Chile: San Isidro II, Palmucho, Ojos de Agua

Endesa Chile is currently constructing the San Isidro II CCGT power plant in Chile. The operation will be divided into three stages:

- Between April 2005 and October 2007, the plant will operate with its gas turbines in open-cycle mode using fuel-oil, with maximum installed capacity of 209 MW.
- Between February 2008 and March 2009, it will operate as a CCGT plant using fuel-oil, with installed capacity of 310 MW.
- From 2009 onwards, the power plant will operate as a natural gas CCGT which will increase installed capacity to 377 MW.

Total estimated investment in this project stands at US\$200 million.

The company is also constructing the Palmucho hydro power plant in the Biobío region. This is a run-of-river power plant located at the foot of the Ralco hydro power plant dam. It will use the other plant's water flow (27.1 m³/s), with an installed capacity of 32 MW.

Total investment will be US\$37 million, including civil works and equipment. The plant is due to come on stream in 2007.

The new plant will not reduce capacity at the Ralco plant nor are new water rights required. The project has the pertinent authorisation from the Chilean environmental authority (CONAMA), which approved the Environmental Impact Statement on 18 February, 2005.

Finally, Endesa Eco, a 100% owned subsidiary of Endesa Chile was created to administer and manage renewable energy projects in Latin America.

This company is developing the Ojos de Agua mini-hydro power plant project in the Maule-Chile area with installed capacity of 9 MW. Total investment in this project will be US\$15 million and it is due to come on stream in 2008.

1.1.2. Peru: Etevensa CCGT and the Camisea gas purchasing contract

The Peruvian company and ENDESA subsidiary Etevensa was granted a licence to supply Camisea natural gas in August 2003. This included a commitment to maintain the installed capacity of its hydro power plant. The company converted two of the turbines at its power plant from fuel-oil to natural gas with installed capacity of 325 MW and came on stream in open cycle mode in August 2004.

It is estimated that the CCGT of the first turbine will begin operating in May 2006 and increase its installed capacity to 400 MW.

In 2005, the Etevensa II project extended ENDESA's commitment to the Peruvian electricity sector with the transformation of the second CCGT turbine.

This will increase capacity by nearly 100 MW and is expected to come on stream at the end of 2006.

These works will transform a power plant which previously operated with fuel-oil to one with nearly 500 MW of CCGT capacity and the first in Peru to use an important local resource such as gas from the Camisea field.

2. TRANSMISSION

ENDESA owns CIEN, the high-voltage electricity interconnection between Brazil and Argentina. The first phase of the project came into service in the first half of 2000, with capacity of 1,000 MW. Work on the second phase began at the end of 2000, doubling the transmission capacity of the interconnection to 2,000 MW in 2003.

Also, since the end of 2001 ENDESA has been a partner in the Empresa Propietaria de la Red, set up to oversee the Siepac project, which includes the development of an electricity interconnection between Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama through a 1,880 km 230 Kv line scheduled for completion in 2006. The estimated budget for this project is US\$320 million.

The Colombian company, ISA (Interconexión Eléctrica S. A.), became the eighth partner of EPR in 2005. The tender process has begun for the construction of the line with 12 companies taking part.

In 2005, EPR became eligible for a loan from the Inter-American Development Bank finance the construction. It also took out a US\$40 million loan with the Central American Bank for Economic Integration to finance 16 substations.

ENDESA also carries out electricity transmission activities in Argentina as a shareholder of Yacylec, which operates a 282 km line between the Yaciretá hydroelectric plant and the Resistencia switching station.

Through Endesa Chile it has a 50% stake in the Gas Atacama gas pipeline, which carries gas from the northern regions of Argentina to the Norte Grande de Chile interconnection system. The 950 km long gas pipeline came into operation in 1999.

3. DISTRIBUTION

ENDESA's Latin American distribution subsidiaries between them sold 55,246 GWh in 2005, 5.6% more than in 2004.

This growth reflects the upturn in demand for electricity seen throughout the region since 2003 as it gradually shook off the economic crises of recent years and returned to the levels of growth experienced before these took hold.

ENDESA ELECTRICITY DISTRIBUTION IN LATIN AMERICA

	GWh		
	2005	2004	Chg. (%)
Chile	11,851	11,317	4.7
Argentina	14,018	13,322	5.2
Colombia	10,094	9,656	4.5
Peru	4,530	4,250	6.6
Brazil	14,753	13,769	7.1
TOTAL	55,246	52,314	5.6

3.1. TARIFF REVISIONS

In 2005, there were several tariff revisions at ENDESA's Latin American subsidiaries. We highlight the following:

In Argentina, Edesur signed an agreement with the government to revise the distribution tariff, which had been changed into Argentinean pesos and frozen in 2002 under the Economic Emergency Law. This agreement includes a 28% average increase in the DCV (distribution cumulative value) which will come into force in 2006, when the integral tariff revision will be carried out.

In Peru, Edelnor finalised the tariff revision process which it carries out every four years and which saw average tariffs remain practically unchanged, increasing only in line with inflation until the next revision.

In Brazil, Coelce carried out its annual tariff revision and approved a 23.6% increase which was fully applied in October 2005 when the Supreme Court repealed the provisional measures set by the Ceará State Court which limited the tariff increase to 11.1%.

3.2. MANAGING DISTRIBUTION LOSSES

Losses from ENDESA's subsidiaries in the region amounted to 11.8% in 2005 compared to 11.9% in 2004.

In 2005, a project to improve energy losses in the Río de Janeiro distribution area operated by Ampla was put in place.

The project, called Red Ampla, involves incorporating the most advanced technologies into the network to avoid the theft of electricity. Investment in the project is Euro 45 million. There have been clear results: for example, 42,000 customers were fitted with new electricity meters under Red Ampla and losses fell from 53.4% to 1.9%. In 2005, Red Ampla supplied 150,000 customers.

The good results and the short time frame in which the investment has been recovered –three and a half years– make this project one of the most successful and groundbreaking undertaken by ENDESA in the field of electric energy distribution in the region.

3.3. CUSTOMERS AND QUALITY OF SERVICE

At the close of 2005, in the five Latin American countries where it distributes electricity, ENDESA had a total customer base of 11.2 million, an increase of 3.1% on 2004.

ENDESA CUSTOMERS IN LATIN AMERICA

	Miles de clientes		Chg. (%)
	2005	2004	
Chile	1,404	1,371	2.4
Argentina	2,165	2,139	1.2
Colombia	2,074	2,015	2.9
Perú	925	912	1.4
Brasil	4,654	4,449	4.6
TOTAL	11,222	10,886	3.1

Following the trend seen in previous years, in 2005 ENDESA substantially increased the quality of the service in the countries where it operates. Specifically, the average number of interruptions at ENDESA subsidiaries in the region was 7.9%, 1.3% less than in 2004, and the annual average interruption time per customer fell by 8.4% to 10.2 hours a year.

4. FINANCIAL STRATEGY FOLLOWED BY ENDESA'S LATIN AMERICAN BUSINESSES

One of the most notable aspects of ENDESA's Latin American businesses in the past years is their increased financial strength since October 2003 which has allowed them to weather the crises affecting the region at that time and ensure future growth and profitability.

4.1. OBJECTIVES

The future financial strategy of these businesses is based on the following objectives:

- To adapt the company's debt to the average life of its investments.
- Optimise each and every one of ENDESA operators in the region to provide each company with efficient gearing levels. For this purpose, capital reductions will be stepped up and the pay-outs increased at the overcapitalised companies and additional measures will be taken to reduce the volume of debt, lengthen the term of the debt and reduce financial costs at the undercapitalised companies.
- Tailor the level of U.S. dollar-denominated debt at all ENDESA's subsidiaries to the degree of dollarisation of their revenues. The goal is to achieve a percentage of U.S. dollar-denominated debt that minimises currency risk exposure.
- Maintain a high percentage of hedged debt in case of interest rate hikes.

4.2. 2005 FINANCIAL PERFORMANCE

Debt in the Latin American business is practically unchanged in dollars vs. 2004, but has risen in euros due to the sharp rise in local currencies and the dollar against the euro.

The rise in Latin American currencies vs. the dollar did not have a significant effect on net income thanks to the Cash Flow Hedges in place.

In 2005, ENDESA continued to follow its policy to improve its financial structure and the quality of debt in the region. As a result of this drive, in January 2005 Moody's Investors Service raised its credit rating for Enersis and Endesa Chile's from Ba2 to Ba1, stable. This decision was based on key macroeconomic improvements and on the increased financial soundness of the two companies. In October, Moody's once again raised its outlook from stable to positive.

We would add that in 2005 Enersis and Endesa Chile's share prices rose by 18.7% and 55.1% respectively on the Santiago de Chile Stock Exchange, reflecting investors' confidence in the successful management of the companies.

Also, in keeping with the financial strategy described above, in 2005 ENDESA carried out capital reductions in those of its subsidiaries which were overcapitalised. This brought in Euro 470 million, mainly from the Colombian companies, Codensa and Emgesa.

This positive economic and financial performance meant that for the first time ever ENDESA's Latin American business paid a dividend to the parent company of Euro 113 million in 2005. This underlines the positive performance of this business and ENDESA's commitment to passing on the good results to its shareholders.

5. ENDESA'S PRESENCE IN LATIN AMERICA BY COUNTRY

5.1. CHILE

38% of ENDESA's consolidated assets in Latin America are located in Chile. The company's workforce in this country numbers 2,813.

ENDESA is present in the Chilean market through Enersis, in which it holds a controlling stake of 60.62%.

Through this stake in Enersis, ENDESA has an interest in Endesa Chile, the leading energy producer in Chile, which owns 4,477 MW of installed capacity either directly or through its subsidiaries. ENDESA holds a 59.98% stake in Endesa Chile.

In turn, Endesa Chile holds stakes in other Chilean generators, such as San Isidro, Pangué, Celta and Pehuenche.

Also through Enersis, ENDESA holds a 98.24% stake in the distributor Chilectra which has 1.4 million customers.

Enersis also has significant stakes in real estate, engineering, IT and services companies in both Chile and other Latin America countries.

5.1.1. Elesur – Chilectra Merger

As part of its policy to simplify its corporate structure in Latin America, this year ENDESA began the proceedings to finalise the merger between Elesur, ENDESA's former investment company in Chile in which Enersis holds a 100% controlling stake and the distribution company Chilectra.

5.2. COLOMBIA

22% of ENDESA's consolidated assets in Latin America are located in Colombia where it has 1,495 employees.

ENDESA manages 2,657 MW of installed capacity in Colombia. It holds a 48.5% stake in Emgesa, the country's largest generation company, with 2,116 MW of installed capacity and 85.6% of the Betaña power plant (541 MW).

It also has a 48.5% stake in Codensa, which distributes electricity to 2.1 million customers.

Due to the capital reductions carried out this year, Emgesa and Codensa have paid shareholders Euro 140 million and Euro 330 million respectively.

5.3. BRAZIL

23% of ENDESA's consolidated assets in Latin America are located in Brazil where the company employs 3,762 staff.

In 2005, ENDESA created ENDESA Brasil, which groups together its stakes in that country. The creation of this holding has brought both strategic and financial advantages. Strategic advantages include the improved visibility of its assets (which has had a positive affect on the share price), greater access to growth opportunities and increased bargaining power. The financial advantages of this operation have brought more stable cash flow, more diversified commercial risk and improved access to the financial markets.

In October 2005, ENDESA transferred all its holdings in the country to Endesa Brasil.

ENDESA holds a 99.6% stake in the Cachoeira Dourada hydro power plant (658 MW installed capacity) and a 100% stake in the Fortaleza thermal power plant (318.5 MW installed capacity).

ENDESA also controls 100% of the transmission company CIEN which manages the 1,000km interconnection power line running between Argentina and Brazil which has 2,000 MW of installed capacity.

In the distribution business, ENDESA manages Ampla and Coelce (stakes of 91.9% and 58.9%, respectively). Ampla distributes electricity to 2.2 million customers in the state of Rio de Janeiro, while Coelce sells energy to 2.4 million customers in Ceará.

5.4. PERU

10% of ENDESA's consolidated assets in Latin America are in Peru where the company employs 1,208 people.

ENDESA manages 1,429 MW of installed capacity in Peru. It holds a 60% direct stake in the Etevensa and Empresa Eléctrica de Piura (Eepsa) generators with 315 MW and 143 MW of installed capacity respectively. Through Enersis it holds a 63.6% stake in Edegel (969 MW). The distribution company Edelnor has installed capacity of 2.3 MW.

Also, ENDESA, in conjunction with Enersis, holds a 60% stake in Edelnor, which distributes electricity to 925,000 customers in the northern part of Lima.

5.4.1. Edegel – Etevensa merger

Last year the merger between Edegel, the hydro generator owned by Endesa Chile, and Etevensa, a thermal generation company directly owned by Endesa Internacional in Peru got off the ground. The plant

ENDESA IN LATIN AMERICA



owned by the latter is currently being converted to CCGT generation. This operation, like the others mentioned above, all form part of ENDESA's programme to simplify its corporate structure in Latin America which it has been carrying out since it started operations there. The company's target is to obtain synergies and make the management of its assets simpler. This operation is expected to be finalised in the first half of 2006.

5.5. ARGENTINA

7% of ENDESA's consolidated assets in Latin America are located in Argentina where the company employs 2,986 people.

In the generation business, ENDESA holds a 69.8% stake in Central Dock Sud, a plant which has two units with a joint installed capaci-

ty of 870 MW. Through Enersis and Endesa Chile the Group also controls 64.3% of the Costanera thermal power plant (2,303 MW installed capacity) and 65.2% of the El Chocón hydroelectric power plant (1,320 MW installed capacity).

In distribution, ENDESA holds a 99.45% stake in Edesur which supplies electricity to 2.2 million customers in the southern part of Buenos Aires.

ENDESA also holds a 22.2% stake in Yacylec, an electricity transmission company which operates and maintains the 282 km Yaciretá line and the Resistencia switching station.

ENDESA's generation and distribution companies in Argentina are currently undergoing a tariff revision which should enable them to

recover the margins that existed prior to the economic crisis and the depreciation of the Argentinean peso.

Edesur, as we have already seen, has reached an agreement with the Argentinean government which allows a 28% increase in the DCV until the integral tariff revision in 2006.

Lastly, the generation companies reached an agreement with the Argentinean government to construct CCGT plants with a total installed capacity of 1,600 MW. These plants should come on stream as of December 2007. The Argentinean government has committed itself to financing and gradually restoring the wholesale electricity market to its normal state.

5.6. DOMINICAN REPUBLIC

In December 2005, ENDESA sold its 40% stake in Consorcio Energético Punta Cana Macao (CEPM), an electricity generation and distribution company with installed capacity of 72.3 MW. The disposal brought in Euro 20 million, resulting in pre-tax capital gains of Euro 7 million.





SERVICES AND OTHER ACTIVITIES

ENDESA carries out a broad range of extremely diverse services to lend support to its core business.

This effort is spearheaded by the Corporate Services and Technology Department which is responsible for corporate procurements, systems and telecommunications, corporate wealth management and technology and innovation.

This division is legally and organisationally headed by the ENDESA Servicios subsidiary, and its mission is to turn these functions into value-creation tools for ENDESA's core business throughout the world, in order to harness the economies of scale resulting from the Company's size, to ensure these functions are leveraging best practices in the industry and promote technology and innovation.

1. PROCUREMENTS

In 2005, ENDESA purchased materials, equipment, work and services totalling Euro 4.58 billion, an increase of 24% on 2004.

These procurements created corporate value through generating savings of over 7% despite having been made against a backdrop of ongoing growth in several key raw material prices, some of which recorded all time highs.

We highlight the following key initiatives carried out during the year:

1.1. CORPORATE PURCHASING

- Launch of global tender processes for all ENDESA subsidiaries in order to leverage the Company's high buying power.
- In generation, combined cycle capacity plans for all of the Company's countries of operation were grouped together. A standard power island was identified and the related supply and long term maintenance contracts harmonised.
- In the distribution business, global tenders were launched for distribution transformers and medium and low voltage lines for all ENDESA distributors. To this end, specifications were standardised and the supplier base diversified to include a significant number of Asian firms.
- The intelligent procurement function was strengthened with emphasis on the unification of procurement planning processes at all business units, the gradual introduction of electronic auctions as a means of awarding tenders, prospecting in China, India and Eastern Europe, global definitions for systems supporting procurements (the ASSA Project) and collaboration with key suppliers via Innovation Circles.

1.2. SPAIN AND PORTUGAL

The total volume of purchases by ENDESA's business in Spain and Portugal amounted to Euro 2.98 billion in 2005, a figure that includes procurements made by Systems and Telecommunications.

Throughout 2005, the Company continued to work on bringing the procurement function closer to the businesses, rolling out a local purchasing programme, part of the strategy for granting business units greater autonomy and flexibility in making non-strategic purchases related to their daily operations.

Along this same line of action, the Procurements Function Transformation Plan was put into place to bring the targets for the procurements department more into line with those of the businesses.

Other noteworthy initiatives undertaken during the year include:

- Leveraging volumes amassed under the Alborada (Andalusia) and Tramontana (Catalonia) plans to minimise the impact of escalating raw materials prices on materials and equipment purchases.
- Implementation of a supplier control system in the contracting safety control process as part of the 2005-2009 Strategic Plan for Preventing Workplace Accidents in Spain and Portugal (PRAEVENIO Plan).
- Development of the outsourced Supplier Registry System in which the Company's 1,500 largest suppliers are already registered.
- This system was expanded to include modules to permit ongoing evaluation of Strategic Product and Service Suppliers and the management of Endesa Energy Service Points.

1.3. LATIN AMERICA

The total volume of purchases made by ENDESA's business in Latin America amounted to Euro 959 million in 2005.

Procurement initiatives focused on adding value to the business. To this end, the following activities were carried out:

- Economies of scale were created by including Latin American procurements in the ENDESA Group's purchase planning process, as well as standardising technical specifications and developing tender processes in line with those being implemented in Spain.
- Progress was made on implementing the outsourced Supplier Registry System in Peru, Colombia and Brazil to enhance quality control. Implementation of a process for recording and resolving incidents relating to material quality and in Chile the quality and environment certification process with supply partners in critical distribution services was initiated.
- Periodical meetings with strategic suppliers were held.
- Within the scope of the ASSA project, the Company held a tender for an IT solution to support the purchasing and contracting process throughout the region.
- Creation of a region-wide collaboration forum for the procurement departments to provide additional day-to-day support as well as an additional communications channel with the internal customer.

1.4. EUROPE

The total volume of purchases made by ENDESA's business in Europe amounted to Euro 638 million in 2005.

2. SYSTEMS AND TELECOMMUNICATIONS

Over the last four years, ENDESA has invested heavily in systems and telecommunications –Euro 256 million in intangibles and Euro 56 million in capex– in response to growing demand and the requirement to enhance systems quality.

Systems development throughout the period sought to leverage best practices in outsourcing, software factories, contract renegotiations, reducing unit costs and generating real savings of 35% to give ENDESA's benchmarking world class status.

2.1. KEY INITIATIVES

2005 highlights:

- Stable operation of the *software factories* enabling significant cost reductions, much increased applications stability, resulting in enhanced quality and fewer post-installation incidents.
- An agreement was signed with Siemens to update the control systems. The new framework will enable optimal development and adaptation of control systems.
- Adaptation of the Generation Systems and Energy Management to provide for trading CO₂ emissions rights in accordance with Spanish and European regulation, and in compliance with the provisions of the Kyoto Treaty.
- Adaptation of ENDESA's financial and economic information system to International Financial Reporting Standards (IFRS) and the development of an internal support tool in compliance with the provisions set down by the Sarbanes-Oxley Act in the US which gives control over financial information to ensure total transparency across ENDESA's operations.
- Launch of the Alminar Remote Control Plan with the objective of reinforcing the remote control systems and infrastructure in the Andalusian medium voltage networks. The plan extends to substation facilities as well as installations in the intermediate networks.
- Start-up of ENDESA's strategic plan for developing/migrating its Commercial System using state-of-the-art development and maintenance methods and new software technologies. This plan dovetails with business requirements and targets to update the applications that make up the Company's commercial systems in the regulated and deregulated markets in order to reduce overall costs, since efficiency and quality levels are at or slightly better than market averages.

- Standardisation of telecommunications technology and its extension to Europe and Latin America, harmonising current project management procedures, identifying specific tools and methods to be correctly implemented and shared, and launching shared initiatives across ENDESA's international network.
- Definition of the Strategic Plan for Distribution and Control Systems and improvement of distribution systems' quality and reliability.
- Commencement of the NOSTRUM Plan, endowing the Company for the first time with a single HR management tool for all its employees worldwide. The system has been fully implemented in Spain, Chile, Colombia and Peru and will be introduced in Italy, Brazil, Argentina, France and Poland in 2006. This is a centralised system which can be accessed by 500 HR professionals as well as ENDESA's 27,000 employees.

2.2. INITIATIVES BY BUSINESS AREA

Noteworthy undertakings at the Company's various business and centralised corporate units are detailed below:

2.2.1. Commercial systems

- The first phase of Project Diana was completed, consisting of migrating service orders in ENDESA's commercial system for the regulated market to the web.
- The operating design for the RAM (Meter reading equipment redesign) Project was finalised, in order to optimise the information stored on these devices and equip ENDESA's commercial system to respond to electricity market trends in the form of new measurement reading technology and devices.
- Phase I of Project ALMA (meter reading application) was implemented in all of ENDESA's operating markets.

2.2.2. Distribution business

- New functionalities to support the elaboration and management of annual capex and expenditure plans, including the creation of standalone planning standards.
- Roll out of the mobility system for managing incidents in the low voltage networks in Andalusia and Catalonia and expansion of the system's mapping functionalities.
- Implementation of a new incident management system for serious interruptions, including operating procedures for reducing active and reactive losses.
- Introduction of an operational support system in the management process for breakdowns triggered by third parties—record, economic follow-up and claim management— and for implementing quality and control standards in network repairs and maintenance.
- Physical safety measures were reinforced and emergency systems put into operation at the control centres, improving their

performance. Redundancy was introduced into the IP104 network.

- Start-up of a quality channel on the web, including reports on customer quality experiences, and analysis and follow up of breakdowns. ENDESA's Distribution System was updated to include new functions to measure and manage individual quality, automate processes and manage historical information on file.

2.2.3. Generation systems

- The integration of the fuel management (GESCOMBUS), specific consumption calculation (SOLCEP), output management (GENERA) and environmental management (SIGMA) systems was completed.
- Implementation of the installation maintenance (GEMA) and monitoring and diagnostics (SIP-CMD) systems in the new combined cycle plants.
- Completion of the roll-out and upgrade of the environmental control system (MEDAS).

2.2.4. Energy management systems

- The systems were adapted to comply with Royal Decree 2351/2004 which amends the procedure for resolving technical restrictions.
- The order management system was made more reliable and robust by modifying its architecture and improving its day-to-day operation, decision-making capabilities and adaptability to new standards and markets.
- The migration of real time communication protocols between the Energy Control System (SPIDER) and the Generation Control Systems and the System Operator was completed, facilitating and improving link maintenance and reliability.
- Introduction of mobility in the e-reporting component of the Energy Management System, providing real time access via portable devices such as PDAs, Tablet PCs, etc., to strategic electricity market operative information.

2.2.5. Internal management and corporate systems

Implementation of the COLABORA System designed primarily to improve the management of works and service contracting from a legal standpoint, specifically within the context of workplace accident prevention.

Development of a Company-wide global corporate portal to integrate existing country-specific portals into a single platform. Development of new collaboration tools to enable employees to leverage the potential inherent in new technologies and communications in support of knowledge management.

Development of a system to manage current retirement and early-retirement plans and to analyse and manage their economic impact.



2.2.6. Telecommunications and remote control

- Over 2,000 off-site medium voltage facilities were incorporated in the remote control network and the communications system was implemented at 45 substations within the scope of the plan for improving the technical quality of electricity supply.
- Expansion of infrastructure and services at ENDESA's Power Management Centre and the renewable energies department's new Wind Park Control Centre.
- Preparations were made for the addition of another 1,800 km of fibre optic cables to the existing internal communications system, which will bring the in-house system to 6,200 km by 2006.

3. GENERAL SERVICES AND SAFETY

Operating procedures between the General Services and Safety unit and the Company's business lines in Spain and Portugal were redesigned to increase the unit's integration with the core business and to leverage synergies.

In addition, within the General Services and Safety unit, work continued on cross-functional coordination and optimisation policies.

3.1. GENERAL SERVICES

Within global contracts, the non-industrial cleaning contract was tendered for all of Spain and Portugal, representing a total surface area of 413,000 m².

Measures were also taken to rationalise certain corporate expenses and progress was made on designing a more updated and flexible management model for the Company's vehicle fleet, such as the introduction of a Single Service Window.

Additionally, coordination of headquarter workplace accident prevention activities was significantly enhanced, the building's environmental certification was renewed after its first year of operation which marked substantial improvements in energy savings and Service Level Agreements were signed with user companies.

In the Canary Islands, work was completed on the Company's new building in Las Palmas on Gran Canary Island.

3.2. SAFETY

The development of the Safety Business Plan was finalised in 2005, establishing general guidelines and the organisational management structure for Security in the business in Spain and Portugal. It will be implemented on a gradual basis over the coming years.

Work continued on the technical and organisational elements for the Security Management Centre, located at the Company's headquarters, whose continuous operation currently supports the Endesa Energy and Endesa Generation remote centres and coordinates corporate security procedures.

Progress was also made on the development of the Corporate Access Control system integrating existing localised systems into a single platform for Spain and Portugal.

Finally the Emergency Plan for the headquarters building was redesigned, the security system for the new building in Las Palmas designed and the new access card certified.

4. REAL ESTATE MANAGEMENT: BOLONIA REAL ESTATE

ENDESA owns a wide and varied portfolio of real estate assets that are not strategic for its core business. The Company believed a new land management policy could maximise the value of this portfolio. To this end, ENDESA incorporated Bolonia Real Estate, S.L. in 2005. This is a fully-owned subsidiary.

The new company's mission is to implement a Business Plan which unlocks these non-strategic assets and maximises ENDESA's returns over the coming years, to become a leading company in the field of the sustainable management of land and the environment.

Accordingly, Bolonia Real Estate's mission is:

- Management of the Company's corporate real estate portfolio.
- Value maximisation by optimising the risk-reward trade-off.
- Development and implementation of development projects and land management strategies based on sustainable practices and monetising the company's assets.
- Development of practices which underscore ENDESA's commitment to society via a management model for land located in natural surroundings.
- Generating resources for ENDESA to propel its core business.

Bolonia's initial land portfolio consists of over 40 million m² in Spain, of which an estimated 1 million m² can be built on, plus 100 million m² in Latin America, representing a sizeable land bank for the real estate and natural resource management sectors.

Work has commenced on advancing the company's targets and disseminating its business and management plans on different fronts—administrative, financial entities, real estate players—informing the marketplace of the first projects that have been identified.

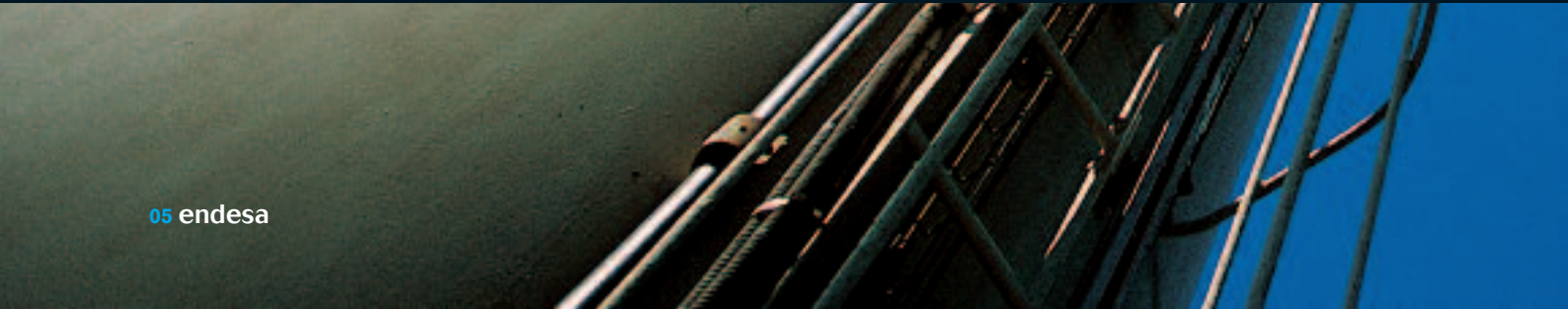
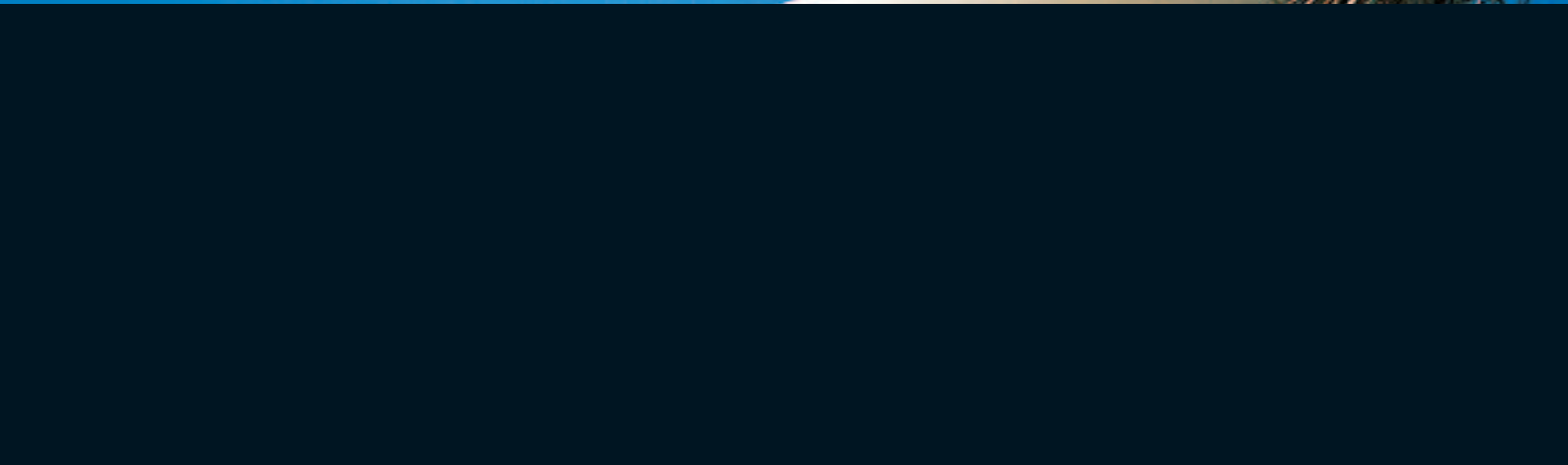
13 prime properties have been selected from the portfolio with a total surface area of around 3,450,000 m² located in six regions of

Spain—primarily Andalusia, Catalonia and the Balearic Islands. This land is excellently located for real estate development: provincial capitals, coastal areas, fast-growing areas in large cities, etc.

In addition, there is potential for broadening Bolonia's future asset portfolio with new additions and/or inventory adjustments on existing land, reclassification and/or transfers-conversions of land used by ENDESA's electricity business, as well as the habitual turnover of lands acquired for the electricity business and which over time may become non-strategic or idle.

Throughout 2005, in addition to developing and implementing the Company's new real estate management subsidiary's business plan and the new land management policy for urban development and natural resource management, the following initiatives were undertaken:

- Property disposals generating gross capital gains of Euro 105 million. This involved 8 auctions in which over 200 real estate investors participated. An additional 3 electronic auctions via the internet were held with a total of 47 real estate bids.
- Acquisition or incorporation of land for generation substations and plants.
 - 10 properties acquired for the Tramontana Plan in Catalonia.
 - Land for the Balearic Islands' new energy plan for generation, distribution and gas.
 - 3 properties for new substations in Seville and support in the acquisition of other sites in all provinces of Andalusia and in ENDESA's regional market in Extremadura.
 - Support in the search for new sites in the Canary Islands and Aragón.
- Addition of the unique Woerman building to ENDESA's real estate portfolio, which will be the headquarters for Unelco ENDESA in Las Palmas on Gran Canary Island. This building is part of the urban development plan for the land on which the former Guanteme plant was located.
- Other noteworthy disposals in 2005 include:
 - Industrial Park II in *Fachada de Levante* in Palma de Mallorca.
 - The Viapol buildings in Seville and on Lepanto street in Barcelona.
 - Plots of land in Esterrí d'Aneu in the Pyrenees.
 - Offices at Núñez de Balboa street in Madrid.
 - Other relevant disposals in several provinces.
- Update and systemisation of information contained in the inventory of ENDESA's corporate real estate portfolio into a global platform i.e., covering all of its operating territories, consisting of the standardisation and uploading of data.



TECHNOLOGY AND INNOVATION

1. ENDESA: TECHNOLOGY AND INNOVATION ACTIVITIES

ENDESA's commitment to technology and innovation (T+I) initiatives is underscored by its activity in this area in the past in a manner harmonious with its vision and mission.

ENDESA acknowledges the increasing importance of T+I as the driving force behind sustainable growth in the energy business and as a developmental lever for its intangible assets, talent and technical expertise. The company is working hard to ensure its T+I activities contribute to responding to the technical challenges being faced by the industry, particularly in the areas of quality, efficiency and the environment, in order to meet its customers' needs.

ENDESA's T+I model is an open one and, in addition to involving all the businesses' technical areas in each country in which it operates, it extends in reach to suppliers, as well as entities, universities and R&D centres worldwide.

The Company's T+I initiatives and activities are organised into the following categories:

- **Generation:** Cutting-edge electricity generation and optimal efficiency.
- **The environment and sustainable development:** A responsible and sustainable approach to environmental challenges.
- **e-business:** A step forward in technical and internal processes and customer relations management.
- **Endesa Network Factory:** An active and intelligent network designed to meet growing and increasingly complex demand, integrating generation infrastructure with other telecommunications media, sensors, real time actions, safety, etc.
- **Customer-Innova:** A premium package of new products, services and channels designed to help the Company's customers use energy efficiently.
- **E³: Knowledge management "ENDESA Energy Education (E³)":** Excellence in managing technical knowledge and collaboration with universities.

Each of these activities is focused using a range of technological perspectives: engineering, technology, research, development, innovation and technical training.

This T+I management model was recognised by the Spanish Association of Telecommunications and Information Society Users (*Asociación Española de Usuarios de Telecomunicaciones y de la Sociedad de la Información* or *AUTELSI*) when it awarded ENDESA the prize for best technological innovation in 2005. This model is currently being certified for innovation management standard, UNE 166002.

2. ENDESA TECHNOLOGY AND INNOVATION INITIATIVES IN 2005.

2.1. GENERATION

ENDESA and its CIRCE Foundation (Zaragoza) are active leaders as the only Spanish representatives of the European technology platform, *Zero Emissions Fossil Fuel Power Plants*, whose purpose is to promote clean coal-fired generation in to facilitate the renewal and extension of current fossil fuel resources.

In addition, the Company leads the Spanish CO₂ platform, set up in 2005, as well as CENIT CO₂ (the national strategic consortium for technical research into CO₂) within the national INGENIO 2010 program, coordinating the initiatives of 33 research companies and organisations, with a Euro 27 million budget for the next 4 years.

Noteworthy generation-related initiatives in 2005 include:

- Analysis of the performance of SO₂ absorber mixtures in the desulphurization of combustion gases (pilot facility at AICIA, Seville University).
- Development of a carbonates analyzer, currently in the testing phase at the gas desulphurization unit at group 3 of the Compostilla plant.
- Development of an 800MW supercritical fluid bed and conversion of several boilers to new types of fuel, with a view to improving efficiency and reducing CO₂, SO₂ and NO_x emissions.
- Dynamic boiler fluid simulations at the As Pontes and Compostilla plants, 4 and 5.
- Distributed generation programme using fuel cells in association with IDATECH and EPRI PEAC, with the aim of enhancing service quality.
- Several market tool projects such as the integrated system for forecasting secondary regulation bandwidth, the medium and long term water management model, the simulation model for electricity markets, the internet portal designed to supply climatic rainfall information to aid the management of hydro supply nationwide and a model to predict forward curves.

In May, ENDESA acquired a stake in Green Fuel Corporación S.A., a company which aims to become the leading producer of bio-diesel in Spain. The Company also continued its research into the use of bio-diesel as an alternative to heavy fuel oil in the alternative internal combustion engines used in electricity generation.

In the field of renewable energies, the Company continued its R&D activities in Spain in the field of photovoltaic solar energy applications at fossil fuel plants and the use of high temperature thermal solar energy in electricity generation. It signed an agreement with Indra and the Polytechnic University of Madrid to design a European wind forecasting system to develop wind farm production.

Other 2005 generation-related initiatives include the online measurement of coal's quality parameters, co-combustion of biomass in coal-fired boilers, an emergency system for dams and a monitoring and diagnostics centre for production units.

2.2. THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT:

ENDESA is a member of the European network, CO₂NET financed by the Sixth Framework Program (FP6), for the capture and storage of CO₂. The network has 64 members to date and 11 partners in more than 18 countries

In addition, the Company is a founding partner of the Spanish Hydrogen Association together with another 33 companies, 17 R&D centres and public organisations as well as the Foundation for the Development of New Hydrogen Technologies in Aragón, in collaboration with 28 other companies and institutions.

The most significant environmental and sustainable development initiatives carried out in 2005 include:

- The implementation of EU regulations for protecting forested land against atmospheric pollution at the Meirama-Puentes plants. To comply with this legislation several additional studies had to be completed, such as branch analysis, analysis of the forest bed, etc. in order to compile as much information as possible about the sources of forest pollution.
- CECA NoDioxCom project to design and develop ongoing monitoring for heavy metals, especially mercury.
- Study of oxy-fuel combustion techniques in collaboration with the National Coal Institute (INCAR) of Oviedo.
- Joint evaluation with the CSIC (Centro Superior de Investigaciones Científicas) of the application of carbonisation-calcination processes to capture CO₂.
- Studies on the biological fixing of CO₂ by means of algae cultivation, in collaboration with the University of Almería.
- Evaluation and analysis of the behaviour of Hastelloy C22, superduplex UR52N+ and ASI 317LMN materials in gas desulphurisation.
- The European Cluster Pilot Project for the integration of RES into the European energy sectors to produce hydrogen from wind power.
- Research into alternatives for chlorine in production systems.
- Participation in the National Forum for Sustainable Architecture organised by ANAVIF and in the Forum for Energy Efficiency and Alternative Energies.

2.3. E-BUSINESS

ENDESA is firmly committed to implementing best of breed technologies in order to enhance efficiency, reliability and availability.

The most significant e-business projects in 2005 include:

- Mobility plan: introducing mobility into the incident management process for medium and low voltage distribution.
- Operation *on-demand*: systems rationalisation by means of a flexible outsourcing model.
- *Software factory*: optimisation and implementation of unique, specialised suppliers organised by line of software development.
- New demand scenarios: revision and optimisation of demand forecasting processes to introduce new parameters into the model.
- Optimisation and enhanced reliability of the medium voltage network.
- Revision and introduction of new MV planning support functionalities, including degrees of support, network optimization, identification of remote controls, etc.
- Supply disconnection and reconnection: process reengineering thanks to new billing and emergency response systems.
- Revision and optimisation of the Company's internal processes for its basic activities, particularly in terms of quality and efficiency enhancements for the service supply—meter reading—billing cycle.

2.4. DISTRIBUTION NETWORKS

ENDESA's T+I network initiatives aim to improve the customers' quality experience via specific environmentally-friendly projects or measures designed to enhance efficiency and so freeing up resources to improve the Company's networks.

Within this context, ENDESA headed the creation of the CENIT – DENISE (Intelligent, Safe and Efficient Electricity Distribution Networks) consortium, in which twelve companies from the electricity sector and seven research centres in Madrid, Aragón, Andalusia and Catalonia participate. The consortium has planned its R&D activities for the next four years for which it has a budget of close to Euro 30 million.

ENDESA has reinforced its new generation network strategy by transforming its Endesa Net Factory subsidiary via the incorporation of the Endesa Network Factory, whose purpose is to support and directly develop distribution research and promotion activities, taking over the secretariat of the Spanish Networks Platform and the PUA (PLC Utilities Alliance), also supporting Suppliers' Circle activities.

The most significant RDI initiatives in electricity distribution in 2005 underscore ENDESA's commitment to society, boosting the three pillars that make up its strategy in this field: quality, efficiency and the environment.

2.4.1. Quality

In the field of topology developments, ENDESA led research into new high capacity conductors, the impact of new generation technologies on the distribution network—solar plants, wind support, fuel cells, mini co-generation— and new underwater connection technol-

ogy designed to enhance service quality and reliability and to optimise the MV network.

Initiatives aimed at boosting performance included research into the use of polymer materials, grounding structures, monitoring of substation parameters, the use of synthetic oils in high voltage (HV) transformers and the anticipation of faults and breakdowns on the MV network via Power Line Communications (PLC) technology.

A new mobility plan was launched to improve incident response time: a new GPRS PDA was tested, equipped with GPS technology with access to SDE modules and the automation of the MV network was extended.

The Company also analysed the effect of wind generation on the safety of the electricity networks in the Canary Islands.

2.4.2. Efficiency

ENDESA worked on the standardisation, certification and harmonisation of reading equipment (HV & LV), substations, the use of new SF₆ and hybrid technologies, 66 kV chambers, and the standardisation of underground HV lines.

Investigation also continued into the remote management of reading and communications equipment, the role of PLC in remote management, the Medium Voltage Remote Control Network and Remote Access, adaptation of remote control technology, the incorporation of PLC into telecontrol access, access to inter-communicating equipment and broadband carrying waves.

Other efficiency-related initiatives included the continuation of the DIANA project (real time functions installed at customers' homes), the ALMA project (designed to boost meter reading management in order to improve quality and communication with suppliers), providing simpler access for external partners to the Company's IT systems, a system for forecasting non-technical losses and a device for detecting electricity fraud by measuring current differentials.

2.4.3. Environment

In this area, ENDESA conducted research into the development and application of low loss transformers in the distribution network (the European SEEDT project), a system for forecasting MV technical losses and dielectric rings and protectors to minimise the environmental impact of bird contact or perching on conductors or utility poles.

The Company also signed an agreement with the Polytechnic University to create the ENDESA Energy Innovation Network professorship that will specialise in training, research and the dissemination of scientific knowledge in the area of energy innovation in the elec-

tricity sector. Its first activities included a series of conferences on distributed energy and static converters.

2.5. COMMERCIAL INITIATIVES

The projects undertaken in this area seek to tailor ENDESA's services to its customers' needs and lifestyles, paying special attention to efficient energy consumption.

We highlight the following initiatives in the residential sector:

- New value-added services in the customer's home.
- The AVANZA project which seeks to endow ENDESA with the best infrastructure and know-how for optimising customer marketing, relations and management.
- An initiative to model electricity consumption in the residential sector in Catalonia.
- Optimisation of energy market segmentation.
- Development of advanced techniques and capabilities to manage commercial campaigns.

The main initiatives in the new housing segment were:

- Launch of a complete advisory service for real estate developers seeking to build sustainable energy-efficient housing.
- Inauguration of the BCN Digital Hall, a space dedicated to displaying the latest household technologies within the scope of the Brasilia Project run by La Salle University, an initiative designed to disseminate technological innovations and promote sustainable home construction.
- Information seminars targeting real estate developers explaining the new Construction Technical Code and specific sustainable construction developments in Spain.
- Publication of an innovative exposé entitled *Declaration on Bioclimatic Construction*.

In the corporate customer segment, the Company set up a series of programs for developing control mechanisms and managing energy installations to promote preventative and corrective maintenance in their various applications and uses.

In the Large Customer segment, product portfolio management was enhanced via a system with several focus points: establishing customer quality commitments, strengthening internal resources and follow-up tools, redefinition of supplier relationships via service agreements and the development of new products to allow customers to outsource energy and emissions management services on its premises.

2.6. KNOWLEDGE MANAGEMENT

ENDESA believes the management of its professionals' intellectual capital, talent and other intangible assets is vital and seeks to integrate and coordinate the way each of its employees' attains and

manages his/her knowledge, regardless of geographic, organisational or cultural barriers.

To this end, the "E³: ENDESA Energy Education" was set up in 2005 with the mission of increasing its employees' ability to share and generate knowledge and innovation.

The most noteworthy projects and activities undertaken by E³ in 2005 include:

- Creation of the E³ Management Committee in Spain and Latin America and the implementation of ENDESA's network of innovators (15X15 Network)
- Design and inauguration of an Emeritus Faculty at the Corporate University.
- Creation of a new Chart of Critical Business Capabilities and on a parallel basis the design of the ENDESA Technical Expert Career aimed at unlocking potential among operating personnel.
- Creation of the Novare Prizes for Energy R&D targeting employees from all ENDESA companies as well as external entities and individuals.
- Design of a Masters degree in Energy with ICAI in Spain and the Universidad Pontificia Católica de Chile.
- T+I launch seminars in Latin America and the appointment of T+I coordinators by business and country (the CreaChilectra and Ampla projects).
- Launch of a learning forum on the Company's corporate portal (intranet) targeted at its 27,000 employees.
- Signing of framework agreement with ICAI to expand on the agreement signed in 1995 and incorporation of E³.

In addition, ENDESA unveiled its T+I strategy at the conference of Spanish university chancellors held in April and at the annual technical seminars held by the confederation of Spanish savings banks in October.

Finally, an agreement was signed with UPM and the DMR Foundation to create a Professorship for the Improvement of IT Processes and another was signed with the regional government of Aragón to foster RDI activities.



HUMAN RESOURCES

ENDESA considers its human resources to be a strategic asset for the Company. It therefore makes every effort to attend to its employees' needs, foster their personal and professional development, strengthen their skills on an ongoing basis, protect their health, improve their working conditions, and establish fair and motivating evaluation and compensation systems.

ENDESA's first two corporate values express its commitment to ensuring development opportunities for all Company employees, based on merit and professional contribution, and to encouraging their involvement in attaining a common goal by sharing information and know-how. The evaluation of compliance with these values is embedded in the Company's compensation systems for its key professionals.

Human resource management highlights during 2005:

- Redesign of the professional management plan which fosters development. New evaluation systems and compensation strategies have been introduced that are results-oriented and reward individual merit.
- Implementation of a new IT system (NOSTRUM) on a global scale, increasing HR management process decentralisation and efficiency, underpinned by a single competencies model for the entire Company.
- A pension plan for Grupo ENDESA employees, covering a total of 23,851 workers.
- Workplace Health and Safety was reinforced by means of a range of initiatives, including:
 - 2005-2009 Strategic Plan for the Prevention of Workplace Accidents in Spain and Portugal (PRAEVENIO Plan).
 - Certification of the Latin American business under the international OSHAS 18001 standard.
 - Prizes for workplace safety excellence in Italy.
 - APOLO and DELFOS optimisation plans which seek, respectively, to apply one global perspective to all business lines and countries, and a shared IT system.
 - Consolidation of the ENDESA Community for Workplace Health and Safety with both onsite and online support forums, the most important of which was the first Corporate Meeting on Workplace Health and Safety.
- First-time implementation of variable compensation for managers, which will be extended gradually over the coming years.

1. EVOLUTION OF THE WORKFORCE AT ENDESA AND ITS INVESTEES

As of 31 December 2005, ENDESA had 27,207 employees, 2.5% less than a year earlier.

The workforce in Spain and Portugal fell from 13,650 employees at year end 2004 to 12,709 at year end 2005, a decrease of 6.9%. 16% of this workforce is female.

The workforce outside Spain and Portugal totalled 14,473 at the end of 2005, down from 14,175 on 2004. This increase reflects the higher level of activity at its services companies in Latin America.

EVOLUTION OF THE WORKFORCE AT ENDESA AND ITS INVESTEES

	2001	2002	2003	2004	2005*	2005 / 2004 % chg	2005 / 2001 % chg
WORKFORCE AT YEAR END							
Electricity business in Spain and Portugal	14,140	13,548	13,651	12,889	12,709	-1.4	-10.1
Electricity business in Latin America	10,617	11,166	11,796	11,735	12,317	5.0	16.0
Electricity business in Europe	–	1,168	1,143	2,436	2,153	-11.6	–
Other businesses	1,252	472	187	93	25	-73.1	-98.0
Total	26,009	26,354	26,777	27,153	27,204	0.2	4.6
AVERAGE WORKFORCE							
Electricity business in Spain and Portugal	15,299	13,688	13,596	13,659	12,833	-6.1	-16.1
Electricity business in Latin America	10,843	11,005	11,556	11,703	12,105	3.4	11.6
Electricity business in Europe	–	1,302	1,162	1,523	2,333	53.2	–
Other businesses	1,247	533	286	100	23	-77.0	-98.2
Total	27,389	26,528	26,600	26,985	27,294	1.1	-0.3

* The year end workforce tally for 2005 was obtained from the provisional close provided by each business line. This forecast was used to calculate the average workforce figure.

AGE PYRAMID FOR SPAIN AND PORTUGAL (INCLUDES OTHER BUSINESSES AND HEADQUARTERS)

Age group	%	Average workforce*
<25	0.4	49
25-29	4.4	568
30-34	10.5	1,349
35-39	12.0	1,541
40-44	20.9	2,684
45-49	27.9	3,579
50-54	18.5	2,375
55-59	4.9	633
60-64	0.4	48
>64	0.0	6
TOTAL	100.0	12,833

* Information prepared with figures as of end November 2005

AGE PYRAMID FOR LATIN AMERICA

Age group	%	Average workforce*
<25	3.3	402
25-29	11.6	1,400
30-34	16.1	1,954
35-39	16.3	1,975
40-44	18.0	2,178
45-49	14.4	1,739
50-54	9.9	1,202
55-59	7.0	849
60-64	3.4	406
>64	0.0	0
TOTAL	100.0	12,105

* Information prepared with figures as of end November 2005

AGE PYRAMID FOR EUROPEAN BUSINESS (EXCL .FRANCE)

Age group	%	Average workforce*
<25	0.2	2
25-29	2.4	27
30-34	5.7	64
35-39	14.4	161
40-44	21.1	235
45-49	27.7	309
50-54	24.0	267
55-59	4.4	49
60-64	0.2	2
>64	0.0	0.0
TOTAL	100.0	1,116

* Information prepared with figures as of end November 2005

2. PENSION MANAGEMET

ENDESA's employee pension plan came into effect on 1 January 2005, representing a milestone for the Company in the area of pension provision.

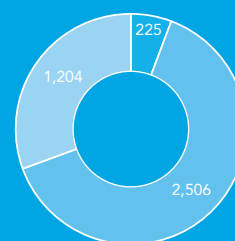
The plan is the fruit of a long process which, in addition to entailing significant technical and legal initiatives, required that all 20 of ENDESA's prior pension plans be terminated and integrated into the new global plan.

This plan has 23,851 beneficiaries and a pension commitment of over Euro 2.1 billion. Despite its magnitude and technical complexity, it is already fully adapted to the Company's organisational structure and can now focus on providing its beneficiaries with high quality service and information while optimising returns on investments.

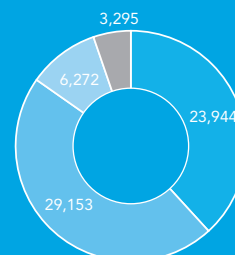
At 31 December 2005, ENDESA had contracted out its entire pension commitments in those countries where this is mandatory, Euro 3.935 billion in all, of which Euro 2.506 billion corresponded to the group pension plan, Euro 1.204 billion represented insurance policy commitments to active and retired employees, and Euro 225 million took the form of severance payments.

ENDESA'S CONTRACTED-OUT PENSION COMMITMENTS IN SPAIN AS OF 31 DECEMBER 2005 (Euro, millions)

Pension plan	2,506
Insurance for active and retired employees	1,204
Severance payments	225

**MANAGED WORKFORCE WITH PENSION COMMITMENTS AND SEVERANCE PLANS AS OF 31-12-05**

Active	23,944
Early retirees	3,295
Retirees	6,272
Inactive	29,153



3. STRATEGIC MANAGEMENT OF EMPLOYEE RELATIONS

3.1. WORKPLACE HEALTH AND SAFETY

ENDESA's workplace health and safety policies result from its corporate values and commitments to sustainability and aim to guarantee that everybody working at ENDESA, both directly and indirectly, can perform their jobs in safe conditions and healthy work environments. The main strategic focuses are to:

- Promote the occupational wellbeing of its workers above and beyond mere compliance with the prevailing legal requirements in each country.
- Ensure workplace health and safety figure high up in the Company's overall strategic roadmap.
- Foster worker participation in initiatives relating to workplace health and safety.
- Support the implementation of efficient management systems benchmarked to the highest international standards.
- Provide the necessary training to avoid or minimize occupational risk.
- Carry out ongoing follow-ups to check that health and safety policies and guidelines are correctly implemented by means of audits that go beyond strict legal requirements.
- Ensure suppliers, contractors and subcontractors comply with legal requirements and applicable internal standards in health and safety matters.

ENDESA undertook several plans and initiatives throughout 2005 in an attempt to position itself as an international reference point in workplace safety matters:

- The 2005-2009 Strategic Plan for the Prevention of Workplace Accidents in Spain and Portugal (PRAEVENIO Plan), which aims to prevent workplace deaths, reduce accidents and optimise absenteeism due to accidents and illness. The Plan consists of seven programmes –training, issue awareness, communication, quality, coordination with contractors, reduction of accidents and optimisation of absenteeism– aimed at enhancing knowledge of technical and prevention topics, integrate risk prevention policies into decision making and management systems, foster a preventative, results-oriented culture and to communicate effectively in this arena with collaborating entities.
- In addition, 28 audits were carried out in work centres in Spain and Portugal –4 in mining, 15 in generation, 8 in distribution and 1 in ports– and the special audit programme for fire and explosion risk started last year was completed taking in 1,159 facilities which were almost all considered in good or excellent condition.
- The OHSAS 18001 (Occupational Health and Safety Assessment Series) certification programme was ongoing, particularly in Latin America, certifying the workplace health and safety systems at 9 facilities owned by ENDESA holdings over the course of the year.

The remaining facilities are in the preparation phase for obtaining said certification.

- The APOLO Project to analyse the management systems in place throughout the ENDESA Group and establish a common management model into which the systems are integrated. The results will enable the identification of opportunities which will contribute to the meeting of the targets set in various local plans.
- Project DELFOS, which consists of designing and implementing a computer platform to uniformly manage all workplace health and safety information generated by group companies. Common criteria for reporting safety and health related events have been developed to support this platform to generate reliable information which will permit homogenous analysis and comparison of system data.
- Consolidation of the ENDESA Community for Prevention with the creation of collaboration forums on the corporate portal, on-site forums and the celebration of Corporate Meetings to exchange know-how and best practices. At the 2005 Meeting, there were over 70 prevention experts from the Company's 8 countries of operation.

Workplace health and safety training hours surpassed 140,000 throughout ENDESA in 2005.

3.2. ACCIDENT RATES

Thanks to the aforementioned safety initiatives, among others, the Company's accident rate –expressed in terms of frequency– was 12% lower compared to 2004.

The accident rate in the ENDESA's Spanish electricity and mining businesses, measured by the frequency index, improved 16.2 points to 11.95 in 2005 compared to 2004, a ratio of completion on the targets contained in the Praevenio Plan of 164%.

3.3. LABOUR RELATIONS

3.3.1. Collective agreements

Throughout 2005, ENDESA carried on its customary policy of dialogue and collective agreements. As of 31 December 2005, there were 50 collective agreements in place at ENDESA's subsidiaries in its eight most important countries of operation, of which 44 are still effective and the other 6 were being negotiated. The Plan affects a total of 22,908 individuals.

In Spain, a permanent arbitration commission was set up to reinforce out-of-court conflict resolution. In addition, the implementation of organisational and corporate restructuring agreements gave effect to the stipulated asset, activity and personnel transfers giving form to the new organisational model approved by the Board of Directors in July 2004.

STATUS OF COLLECTIVE BARGAINING AT ENDESA AS OF 31/12/2005*

TOTAL	SPAIN		LATIN AMERICA		EUROPE		TOTAL	
	Workers Agreements	affected	Workers Agreements	affected	Workers Agreements	affected	Workers Agreements	affected
Total agreements	3	12,796	44	8,301	3	1,811	50	22,908
Effective agreements	3	12,796	39	7,466	2	773	44	21,035
Agreements under negotiation	0	0	5	835	1	1,038	6	1,873

*Information based on ENDESA's subsidiaries in its eight most important markets.

Existing headcount reduction plans were efficiently managed to bring workforce levels in line with business needs and ensure adequate succession planning.

After the second Framework Collective Agreement for ENDESA was signed in May 2004, affecting 12,796 workers in Spain, collecting bargaining focused on fleshing out certain pending items in the agreement. We highlight the agreements reached with workers on new job classifications, the upgrade of work regime compensation concepts contained in the original agreements to reflect the second Framework Agreement, the formulation and launch of the distribution system for the Advances and Credit Fund and the formalisation of ENDESA's Pension Plan.

In Latin America, as of 31 December 2005, there were 44 collective agreements in place, 5 of which were being renegotiated. The agreements cover 8,301 individuals. 13 new collective agreements were signed during 2005.

Finally, as of 31 December 2005, there are 2 collective agreements in effect in Italy and France and 1 under renegotiation. These 3 agreements cover 1,811 individuals.

3.3.2. Trade union representation

There are a total of 1,175 employee representatives at ENDESA's subsidiaries in its eight most important countries of operation: 748 in Spain, 256 in Latin America, 82 in Italy and 89 in France.

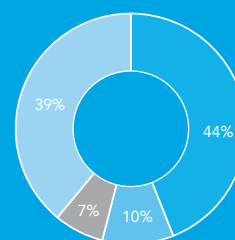
Union membership in the Company's workforce in Spain, Latin America, and Italy stands at 50%, 76%, and 60%, respectively. Membership of international labour federations breaks down as follows: International Federation of Chemicals, Energy, Mining and Assorted Industry (ICEM) 44%; Union Network International (UNI) 10%; Public Services International (PSI) 7%; others 39%.

3.3.3. Work climate

The number of hours lost as a result of strikes in Spain and Italy in 2005 was equivalent to 0.03% and 0.09% of total hours worked, respectively. The hours lost were the result of strike action at levels beyond the scope of ENDESA.

BREAKDOWN OF UNION MEMBERSHIP AT ENDESA

ICEM	44%
UNI	10%
ISP	7%
Other	39%



Labour agreements and initiatives carried out in 2005 within the Company resulted in a positive work climate.

4. INTEGRATED TALENT MANAGEMENT

ENDESA's strategic and organisational goals require a merit and development oriented personnel management strategy which seeks:

- To align human resources with organisational and strategic goals.
- Recognition of individual contribution.
- Centralised evaluation of management talent in order to facilitate mobility and optimise succession plans for key positions.
- Communication and transparency in terms of human resource management strategy and policies.
- Commitment to quality, decentralisation and efficient processes.

The key to meeting these goals is to endow managers with the responsibility to develop the talent available at ENDESA and actively involve its employees in their own development, via continuous learning, to enhance their skills and performance and realise their potential.

Several projects were undertaken in 2005 to achieve these goals:

- Consolidation of ENDESA's competencies model
- Redesign of the performance management system
- Management segmentation

- Consolidation of merit based compensation policy
- Individual tailoring of development and training programs

International mobility was further reinforced. The salient initiatives in 2005 within each project are described below.

4.1. CONSOLIDATION OF ENDESA'S COMPETENCIES MODEL

In 2005, ENDESA completed a single competencies model applicable to all its employee collectives, shared by all Group subsidiaries and business units providing the organisation with a common language for identifying and managing talent, particularly in the areas of development and mobility. The model consists of 120 technical and functional competencies and 10 generic management skills.

4.2. REDESIGN OF THE PERFORMANCE MANAGEMENT SYSTEM

In 2005 ENDESA redesigned its performance management system in order to foster a cultural transformation and definitively integrate all the Group's existing evaluation systems as well as their gradual application to other employee collectives, based on responsible differentiation to maximise the return on investments in employee development and motivation.

To support implementation, which requires decentralised evaluation and validation processes at a range of levels, the Company undertook a significant training and communication effort to promote awareness of the management criteria contained in the new system and reinforce certain skills –such as target setting, evaluation, coaching and leadership– to maximise the impact of the cultural change.

4.3. MANAGEMENT SEGMENTATION

In 2005, ENDESA continued to analyse and segment its managers worldwide, applying tailored performance-linked compensation programs to enable the development of medium term development plans adapted to each individual's needs, potential and career goals.

This evaluation process, which was reinforced with external benchmarking, will be applied in Latin America and Europe in 2006.

4.4. CONSOLIDATION OF COMPENSATION POLICY

In 2005, the Company reinforced its merit and results-oriented compensation strategy by evaluating the combination of factors which enable an objective analysis based on segmentation strategies,

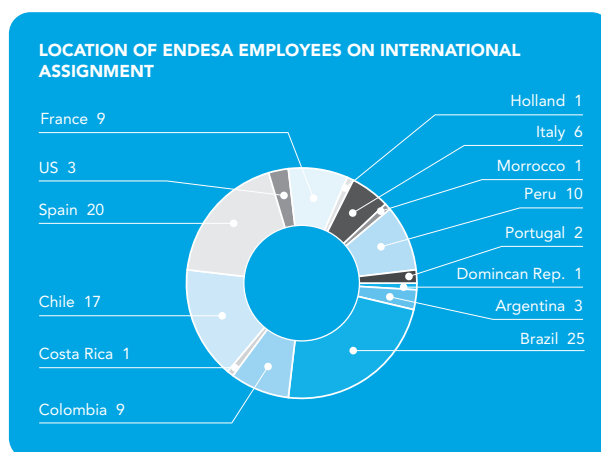
tailored to each country's economic environment and compensation framework.

In Spain, variable compensation was introduced for managers in a programme which will be gradually extended to other groups of employees.

4.5. INTERNATIONAL MOBILITY

ENDESA continued to promote international assignments in 2005 to underpin business development and support operations outside of Spain as well as ensuring development opportunities for its key professionals.

As of 31 December 2005, a total of 108 employees were on assignment abroad, 50% of which were Spaniards while the remaining 50% were other nationals.



In addition, the International Development Programme, promoting temporary international assignments across different countries and businesses to enhance professional development and foster a shared culture, entered its second phase in 2005.

4.6. TRAINING AND DEVELOPMENT POLICIES

ENDESA's training activities are aligned with its strategic goals and create value through personal and professional development thanks to the continuous acquisition of skills and know-how.

ENDESA's development and training initiatives can be broken down into two categories:

- **Global.** These contribute to the implementation of a common culture, meeting corporate goals and leadership development at ENDESA. These are mainly directed at managers and strategic groups of professionals.
- **Business specific.** These seek to consolidate and ensure each business' strategic targets and standards of excellence are met.

4.6.1. Global (executive) training initiatives

Development and training programmes are structured as follows:

- The Executive Challenges Training Programme, which was completed in 2005, consists of basic training divided into four core competencies which are developed via specific management and management-track programmes by business and subsidiary. Noteworthy are the People Management programme in Spain and Portugal, Leaders of the XXI Century at Chilectra (Chile) and the PIPAll programmes for management leadership development in Colombia. These programmes deal with:
 - Customer and market awareness issues.
 - Standardised business knowledge.
 - Development of a common leadership style.
 - Cultural integration.
- The promotion of the management skills included in individual development plans. 2005 initiatives emphasized communication, negotiation and people management skills.
- Specific programmes designed to advance the fulfillment of ENDESA's goals which were rolled out in all business areas: innovation management seminars, coaching related to the implementation of the Nostrum Project, etc.
- Postgraduate studies at the most prestigious business schools in its countries of operation for key and promising professionals. These training programmes are tailored to their profiles and professional goals.

4.6.2. Business-specific training

4.6.2.1. The business in Spain and Portugal

The 2005 Development and Training Programme for Spain and Portugal focused on the following aspects:

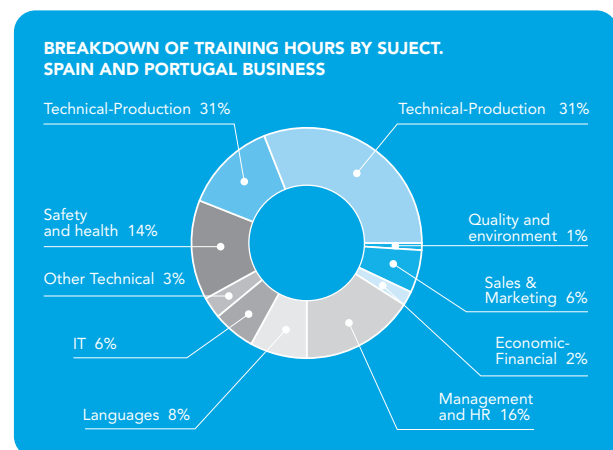
- Programmes aimed at increasing line managers' management and leadership skills.
- Definition of training programmes related to the technical skills and competencies required to roll out the new job categories defined in the second Framework Agreement. Training objectives were designed for the key positions within each line of business, vital to the decentralised training management called for in the Nostrum project.
- Use of training to develop in-house mobility, encouraging personnel turnover from central offices to the regional operations in order to reinforce operating functions and boost the Company's customer focus, freeing up resources for redistribution and management units. To this end, incentives and support measures were designed to facilitate professional development opportunities and training centred on implementing new know-how management methods.

Over 200 of these kinds of initiatives were implemented throughout the year via individualized management. 938 vacancies were filled to provide the business units with the necessary resources. 4,599 candidates were considered for these vacancies which were 95% covered by internal personnel.

- Emphasis on the implementation of new knowledge management techniques to create more flexible and tailored learning programmes.

The focus of this training was two-fold:

- Specific plans by business line:
 - Generation: develop new training programmes orientated at increasing skill ranges.
 - Networks: adaptation to new legislation and new redesigns implemented.
 - Supply: Customer service and sales channels.
 - Services: focus on in-house customers.
 - Corporate areas: adaptation to the new international accounting standards (IFRS).
- Common training programmes for all employee levels and business lines in Spain:
 - Workplace accident prevention.
 - Knowledge of ENDESA's business.
 - Acquaintance with the new Nostrum IT system.



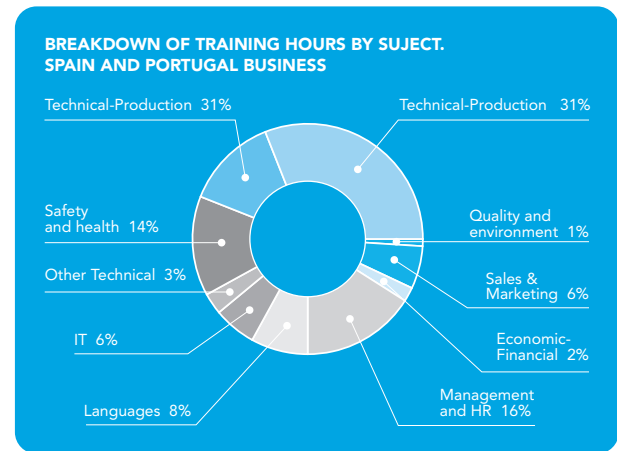
4.6.2.2. Latin America

Training programmes at ENDESA's subsidiaries in Latin America in 2005 focused on organisational culture development, leadership styles and customer awareness and focus. These programmes entailed 40,000 attendances and 600,000 hours of training.

Some of the most noteworthy programs were the management and leadership development programs in Colombia (PAIPA II) and Chile (leaders of the XXI century), programs for increasing knowledge of the electricity business and creating a culture of customer service



in Peru, the professional development programme in Brazil, the Company and Family Programme in Argentina as well as technical training programmes for the generation companies.



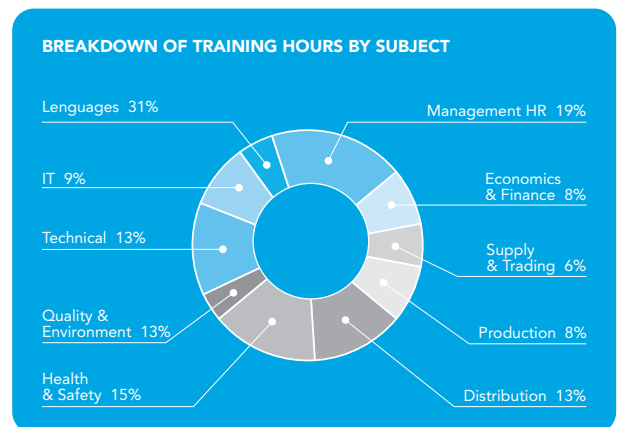
4.6.2.3. Europe

ENDESA's European business participates in the General Training Programme for Managers, which aims to develop and motivate professionals to increase their commitment to the firm by means of high level training, post-graduate training programmes and coaching aimed at developing and enhancing skills.

In 2005 ENDESA Italy developed an Integrated Training Plan for professionals to boost the development of job related skills and the acquisition of knowledge required by the start up of the new combined cycles at the Ostiglia and Tavazzano plants. The Plan affects 100 people and 8,000 hours of training each year.

5. EMPLOYEE SATISFACTION

ENDESA is making significant efforts to maximise its employees' commitment to the Company. In 2005, it carried out its second company-wide Work Climate survey.



ENDESA's strategic roadmap reflects the need to strengthen employee satisfaction and therefore strategic targets have been set for 2005-2009.

During the first half of 2005 the Company implemented a plan to communicate the results of the Work Climate survey and began work on drawing up a series of associated action plans.

These action plans will be coordinated by the Areas for Priority Action, which oversee company-wide initiatives. The corporate heads, general directorates and subsidiaries will then define their own plans to enhance satisfaction on a local basis.



SUSTAINABLE DEVELOPMENT AND THE ENVIRONMENT

ENDESA is committed to balanced development, simultaneously seeking economic growth while ensuring our natural surroundings remain an ideal place in which to live.

The importance of giving back to society has always featured in ENDESA's corporate values. The Company understands it must look beyond fulfilling its customers' specific needs to meet expectations other than supply service quality, interpreting what society expects from us and responding accordingly.

ENDESA's value is not limited to its material assets, but also includes many intangibles such as brand, relations with shareholders, customers, employees and suppliers, and commitment to the communities where we operate, and this is reflected in the Company's corporate strategy. Sustainable development an integral part of the Company's strategy, policies and operations.

ENDESA defined its Corporate Sustainable Strategy in 2002, encompassing the three dimensions of sustainability. This strategy reflects that the Company understands and has taken on board the fact that sustainable development means looking after the interests of its various shareholders as demonstrated by the 7 Commitments for Sustainable Development announced in 2003 as part of its Sustainability Policy and which set forth the criteria guiding its dealings with its customers, shareholders, employees, suppliers, contractors and society.

1. SUSTAINABLE DEVELOPMENT

1.1. MILESTONES IN ENDESA'S SUSTAINABILITY DEVELOPMENT STRATEGY IN 2005

Based on its mission, vision and values and its 7 Commitments to Sustainable Development, ENDESA created its 2003-2007 Strategic Plan for the Environment and Sustainable Development which it is implementing via a series of programmes and specific initiatives.

The implementation of this plan reduces the environmental impact of the Group's business activities, leveraging opportunities created by evolving environmental regulation and the favourable market perception of companies which are clearly committed to sustainable development.

At the half way stage, this strategic plan has been 70% implemented. Highlights of this rapid implementation include sustainability initiatives, the implementation of environmental manage-

ment systems, reactions to the challenges posed by climate change, our waste and effluents management strategy, the reduction of raw material consumption and energy efficiency and demand management plans.

The Company's sustainable development strategy is given concrete form by means of the Annual Sustainable Development Action Plan. This plan, which is drafted under the supervision of the Sustainable Development Working Group and approved by the Management Committee, entails more than 60 concrete initiatives with the participation of 12 management teams.

The consolidation of the programmes rolled out in the Company's Latin American subsidiaries via Endesa Chile's Sustainable Business Operating Plan, setting forth sustainability initiatives for the generation business, and the Strategic Sustainability Plan for the region's distribution companies, marked a sustainability milestone in 2005.

In Europe, the French subsidiary, Snet, also approved its 2005-2007 Strategic Plan for the Environment and Sustainable Development.

Also in 2005, the Peruvian generator, Edegel, became the first ENDESA company to be certified according to the international SA 8000 standard, developed by Social Accountability International, which certifies corporate management of issues related to human rights, children's rights and working conditions.

ENDESA plans to have all its holdings certified under this same standard.

1.2. EXTERNAL RECOGNITION OF ENDESA'S PROGRESS IN SUSTAINABILITY

In 2005 ENDESA continued to consolidate its noteworthy position in the area of sustainable development on a national and international scale as demonstrated by its presence in selective sustainability indices and a range of public awards.

Highlights:

1.2.1. Dow Jones Sustainability Indexes

In 2005, ENDESA featured as a leading company in the field of sustainable development for the fifth consecutive year within the Electric Utilities segment of the Dow Jones Sustainability World Index, and in the Utilities segment of the European Dow Jones Sustainability Stoxx.



These indexes, prepared by Dow Jones and the SAM Group, a global reference in sustainability issues, single out companies at the forefront of their respective sectors which are noted for their commitment to sustainable development.

1.2.2. Storebrand Investments



ENDESA was rated *Best in Class* by Storebrand Investments for its social and environmental conduct.

The Storebrand Investments appraisal and rating system is based on an analysis of the organisation's policies, management systems and key indicators from social and environmental standpoints.

Storebrand only awards its *Best in Class* distinction to the highest-ranking organisations within its rating system.

1.2.3. Aspi Eurozone



ENDESA was also included on the ASPI Eurozone sustainability index.

The criteria for being included in this index relates to corporate responsibility.

Vigeo is a European rating agency for corporate social responsibility comprising institutional investors, European unions and European multinationals.

1.2. PARTICIPATION IN NOTEWORTHY INITIATIVES

1.2.1. The United Nations Global Compact



In March 2002, ENDESA signed the Global Compact, an initiative led by the United Nations targeting companies, international workers' associations and NGOs.

The aim of the Global Compact is to promote the voluntary adoption of ten universal principles in the areas of human rights, labour regulations, the environment and anti-corruption.

During 2005, as a demonstration of ENDESA's commitment to the Global Compact, each of its Latin American generation and distribution subsidiaries joined the Global Compact directly, thereby strengthening its commitment to sustainable development.

In Europe, Endesa Italia also joined the Global Compact by means of a letter of adhesion sent in December 2005 by its General Manager to the Secretary-General of the United Nations, Kofi Annan.

In addition, ENDESA ratified its commitment to the Global Compact at the world summit held in Shanghai. The Company presented its strategies for sustainable development and climate change at this summit.

ENDESA actively participates in the Spanish Association of the United Nations Global Pact (ASEPAM), the entity set up to implement the objectives and principles of the Global Pact in Spain. It is a member of its Executive Committee and its Square Table, a forum for dialogue between the various stakeholders.

As an active member of the Global Compact, ENDESA reports annually on progress made by the Company on the initiative's own website (www.unglobalcompact.org).

1.3.2. Membership of the Excellence in Sustainability Club

In 2005 ENDESA participated in the activities run by the Excellence in Sustainability club, which it joined in 2004.

The Club was created in 2002 to convey the commitment of its members to sustainable development to society as a whole and to foster sustainable development throughout Spain's entire business community.

The Club, which is composed of 22 of Spain's largest companies, whose aggregate turnover represents 18% of the country's GDP, aims to provide a forum for dialogue with shareholders, a platform for sustainable development benchmarking, a means to convey good practice to other companies, and a forum for holding seminars and editing publications.

2. THE ENVIRONMENT

Environmental protection is a cornerstone of ENDESA's commitment to sustainable development. The Company's track record is a testament to this and its commitment to the environment is a fundamental part of its corporate values.

ENDESA's environmental management is a coherent component of corporate strategy and part of the senior management's decision-making processes.

In this way, the Company aims to minimise the impact of its operations on the natural surroundings. ENDESA has developed a broad range of initiatives primarily related to matters concerning environmental management, exemplary management of effluents, waste, pollution and contaminated land, among others.

2.1. INITIATIVES RELATING TO CLIMATE CHANGE

Regulations governing greenhouse gas emission (GGE) trading came into effect in 2005, marking the debut by Spanish companies on the European emissions trading market.

Throughout the year, ENDESA implemented the strategy and tools prepared in the run-up to this new legislation. Also, progress was made on the investment programme to cut greenhouse gas emissions, enhancing facility efficiency and investing in new capacity at combined cycle plants and stations fuelled by renewable energies.

Among the initiatives aimed at enhancing efficiency and performance, we highlight the introduction of ABACO technology, in conjunction with engineering firm Inerco, at some of ENDESA's facilities.

In the area of emissions trading, the Company acquired emissions rights by participating actively in the European market.

Participation in projects and mechanisms to reduce emissions is a cornerstone of ENDESA's strategy for climate change. In 2005, ENDESA was a particularly active player on an international scale in the area of Clean Development Mechanisms (CDMs).

The Company set up an internal group for acquiring emission rights via projects and defined quantitative and qualitative targets to meet its obligations arising from the Kyoto Protocol for 2005-2007 and 2008-2012. This resulted in the following initiatives:

- Development of the legal documentation necessary to acquire Emission Reduction Certificates (ERCs) pursuant to CDMs, such as acquisition LOIs, exclusivity agreements and purchase contracts.
- Identification of CDM projects in Argentina, Brazil, Chile, Colombia and Peru. ENDESA's presence in these 5 countries enabled it to identify a large number of projects at different stages of maturity and to initiate negotiations with developers of several to acquire their ERCs.
- Identification of CDM projects in non-Annex I countries such as Mexico and China. Here the most noteworthy initiative was the agreement struck up with Huaneng to purchase 2.6 million tonnes of CO₂ by 2012 from a 195 MW wind farm.
- Framework agreements were signed with companies capable of generating ERCs. ENDESA reached a series of agreements in 2005 with companies operating in non-Annex I countries to acquire their ERCs.
- The ENDESA Climate Initiative was launched. The purpose of this initiative is to acquire the rights to emit 15 million tonnes of CO₂, 5 million tonnes between 2005-2007 and the remaining 10 million tonnes between 2008-2012. ENDESA carried out 2 launch events: one at its headquarters in Madrid and another in Rio de Janeiro (Brazil).
- ENDESA continued to participate in the World Bank's CDCF carbon fund which registered several projects with the United Nations

in 2005, including the first initiative to be granted emission reduction certificates.

ENDESA participates in a range of national and pan-European programmes dealing with the capture of CO₂, agro-energetic crops and new kinds of bio fuels and in 2005 continued to collaborate on climate change with several Spanish and international entities such as the Spanish Office for Climate Change, Eurelectric, IETA, Carbon Expo, and COP 11, in addition to the following programmes:



- Eurelectric's EWP (Energy Wisdom Programme), a 2005 European Commission initiative within the scope of its Sustainable Energy Europe Campaign 2005-2008.
- The Carbon Disclosure Project, the aim of which is to make corporate behaviour more transparent with regard to climate change, and in which ENDESA has been participating for several years.

2.2. MILESTONES IN ENVIRONMENTAL MANAGEMENT SYSTEMS

The environmental management systems (EMS) at the following ENDESA generation plants in Spain were certified in 2005:

- The Jinamar fossil fuel plant (Canary Islands) was UNE-EN ISO 14001 certified.
- The coal port terminal at Ferrol was UNE EN-ISO 14001 and EMAS certified.
- The Garraf JV –the degasification and biogas energy recovery facility at the Controlled Deposit in the Vall d'En Joan in Barcelona– was UNE EN-ISO 14001 and EMAS certified.

In addition, the EMS at the Andorra (Teruel) mining centre underwent an initial audit in preparation for UNE EN-ISO 14001 environmental certification.

In the Spanish distribution business, an EMS was drawn up for the Balearic Islands, and implementation began in November after environmental training had been provided, in Aragón the preliminary phase for diagnosing facilities was carried out, and in Catalonia, where the EMS was ISO 14001 certified in 2004, the first annual revision took place.

The implementation of the EMS in the Company's headquarters in Madrid was completed. The Company plans to certify the rest of its corporate buildings over the coming years.

In the European electricity business, ENDESA Italia has certified 100% of its facilities under ISO 14001. This complements the EMAS certification held by all its fossil fuel generation plants.

In France, ENDESA's subsidiary, Snet, has started implementing the EMS at its facilities.

In Latin America, the EMS implementation process being led by Ende-sa Chile at the Company's generation facilities was ongoing and 47 power stations in Argentina, Brazil, Chile, Colombia and Peru were ISO 14001 certified.

Chilectra became the latest Latin American distributor to receive environmental certification bringing the amount of distributed electricity in the region which is ISO 14001 certified to 76%. The Brazilian utilities, Ampla and Coelce began implementation during the year.

2.3. MAIN ENVIRONMENTAL INITIATIVES

2.3.1. Waste management

In 2005, ENDESA continued to improve and adapt its facilities to minimise waste generation. Noteworthy initiatives include the recycling of used oils, minimisation of container waste production, gradual withdrawal of asbestos from installations, the use of rechargeable or long life batteries, and treatment and recycling of used cleaning detergents, among others.

The Plan for the elimination and withdrawal of equipment containing PCBs was ongoing as was the campaign for testing equipment for contamination with these chemicals, even where they were not made with PCBs.

Finally, around 4 million tonnes of waste materials, predominantly ash from its coal fuelled stations, were recycled at Company facilities.

2.3.2. Pollution

Fossil fuel plants are continuously controlling and monitoring emissions levels, reporting periodically to the government. This information was reported again this year to the European EPER registry and the national registry of air pollutants (Corine Aire).

Within the program for adapting its existing fossil fuel stations to the national air pollution reduction plan, the coal mix consumed in group IV of the As Pontes fossil fuel station was modified to permit the use of 100% imported coal.

2.3.3. Biodiversity

In distribution, within the framework of the Collaboration Agreement between Gesa-ENDESA and the Balearic environmental council, the Company developed initiatives to protect the osprey and the black kite, which are in serious danger of extinction on the islands. The Company has also applied to take part in a Life Project for the protection of endangered species.

In the Canary Islands, the programme set up within the Life Project for the protection of the eagle in Fuerteventura was ongoing and plans for 2006 were drawn up.

In 2005, ENDESA drafted its 2006-2010 Biodiversity Preservation Plan. The purpose of this plan is to optimise its nature reserves and launch new projects in line with its Sustainability Policy. To this end, the value and state of preservation of these assets will be analysed to identify biodiversity preservation initiatives already underway and plan new ones.

2.3.4. Hydroelectric environmental management

We highlight the restoration work being carried out in areas affected by ENDESA's hydroelectric generation activities.

In 2005, 46% of the restoration work on the lakes (*ibones*) planned for Oscense in the Central Pyrenees was completed. This brings the completion rate for this initiative, launched in 2004, to 54%. The programme is scheduled for completion in 2006.

An analysis was made of the progress of the scenic integration initiative for the area surrounding the hydroelectric generation facilities in the region of Vall Fosca in the periphery of the Aigüestortes i Estany de Sant Maurici national park.

Noteworthy among the various studies of reservoir emptying made was the analysis of the environmental impact caused by emptying the Sallente reservoir and the subsequent environmental follow-up. The simultaneous planning for the technical and environmental aspects of emptying this large reservoir meant that the environmental fall-out was minimal, resulting in a high level of social and administrative acceptance for the project.

ENDESA Italia, in accordance with criteria established by the Italian government, carried out water studies on the reservoirs which supply its plants, to investigate the quality of reservoir water and reservoir beds and minimise power losses at these facilities due to eutrophication.

2.4. ENVIRONMENTAL R&D

In addition to the environmental projects listed in the Technology and Innovation section of this report, we note the zebra mussel study was continued in 2005.

Throughout the year the habitat of this mussel expanded significantly, affecting the entire system of large reservoirs along the lower Ebro river.

Up until 2005 the study focused on recognising the ecology of this species in its adult state. Work included the following initiatives:

- Initiation of a study of the annual cycle of the larva phase of the zebra mussel to learn when and how best during the year to manage reservoir levels and circular flows to conduct a demographic control the species.
- A publication on the methods for controlling and eradicating this species under different scenarios, based on ENDESA's related experience.
- Preparation of a web page containing information generated or acquired by ENDESA regarding the zebra mussel.

The Company also completed a study comparing the amphibian populations of two reservoirs which are managed differently and the hydraulics of a fish passage built in 2004 –a project which received mention in the Félix de Azara prizes in Huesca– were modelled.

COMMITMENT TO SOCIETY

1. SOCIAL INITIATIVES IN ENDESA'S CORPORATE TRACK RECORD

ENDESA performs a range of social initiatives to finance projects which contribute to economic, cultural and educational development in the locations where it operates. This kind of action is firmly rooted in its corporate conduct for various reasons:

- The Company's core business provides a basic service for the community. Accordingly, ENDESA assumes the obligations corresponding to its status as a public service provider and strives to guarantee the best possible standards of safety and quality.
- Since its incorporation in 1944, ENDESA has striven to establish relationships of partnership and mutual trust with the social environments in which its plants are located and with their institutional representatives, and it extends this conduct, as best practices, to its holdings.
- Social and cultural commitment to the community are expressly contained in the Values to which the Company subscribed in 1999, and compliance with this commitment is required and assessed in the systems for remunerating employees.
- Commitment to the societies where it operates is one of the Seven Commitments for Sustainable Development approved by ENDESA in 2003.

1.1. CRITERIA OF ENDESA'S SOCIAL INITIATIVES

In performing these activities, ENDESA adheres to the following basic principles:

- The Company's social initiatives must be underpinned by its belief that supplying electricity is a public service. ENDESA's foremost commitment to society is therefore to supply electricity in the best possible terms and conditions. Accordingly, the Company's social initiatives shall under no circumstances be seen as replacing or reducing the obligations deriving from this commitment.
- The social initiatives it engages in are closely aligned with the nature and characteristics of its day-to-day business operations, with what the Company does best, and with the needs of the main communities with which it has a direct relationship.
- Notwithstanding the above, in the case of particularly disadvantaged environments or communities ENDESA shall endeavour to provide for those urgent social needs that cannot be adequately met by other institutions.
- The Company endeavours to perform such interventions in close partnership with the social representatives of the environments or communities which benefit therefrom.
- ENDESA is aware that, because of its economic dimension and the service it provides, it is among the leading companies in many of the markets where it operates. Consequently, it is amenable to collaboration in special flagship projects in these communities.

- ENDESA undertakes to disclose its social initiatives in a transparent and systematic fashion via its various communication channels and in line with principles that are generally accepted both at home and abroad.

1.2. NATURE OF ENDESA'S MAIN SOCIAL INITIATIVES

In accordance with the principles and considerations outlined above, ENDESA's social initiatives are mainly of the following type:

- Projects directly related to the Company's activities.
- Collaboration in projects promoting the economic development of local communities where it operates through infrastructure construction, the establishment of industry, job creation, etc.
- Initiatives that foster and enhance the well-being of populations resident in disadvantaged areas, notably in Latin America.
- Provision of funding to sustain local interest initiatives.
- Contributions to local community development projects based on the principles of sustainable development. These are channelled through specific Foundations supported by ENDESA and its holdings.
- Participation in cultural and academic initiatives, or projects associated with sustainability that are consistent with ENDESA's values:
- Collaboration in nationwide projects or initiatives entailing the global development and promotion of specific regions.

ENDESA carries out these activities either through one of the various Foundations established for the initiative or with the backing of the Company or its holdings, principally the ENDESA Foundation, or directly, via individual initiatives promoted by the Company or one of its holdings.

2. ENDESA'S INVESTMENT IN SOCIAL INITIATIVES IN 2005

In 2005, ENDESA invested a total of Euro 25.4 million in social activities. Of this total, Euro 16.4 million was invested in Spain: Euro 5.2 million via the ENDESA Foundation and Euro 11.2 million through direct Company initiatives.

Of this latter amount, Euro 6.6 million related to actions taken directly via corporate headquarters and Euro 4.5 million by its Spanish operators, i.e. Feinsa ENDESA (Catalonia), Sevillana ENDESA (Andalusia and Badajoz), Gesa ENDESA (Balearic Islands), Unelco ENDESA (Canary Islands), Erz ENDESA (Aragón), or by some of its largest electricity plants, such as Compostilla, As Pontes, Andorra, Carboneras, Ascó, Vandellós, etc.

ENDESA'S INVESTMENT IN SOCIAL INITIATIVES IN 2005

Thousands of Euro

SPAIN	16,350
ENDESA Foundation	5,200
Initiatives via corporate headquarters	6,650
Initiatives via local brands	4,500
LATIN AMERICA*	9,000
TOTAL	25,350

* Not including investment in rural electrification, due to its unusual characteristics

3. INITIATIVES TAKEN BY THE ENDESA FOUNDATION

3.1. ILLUMINATION OF MONUMENTS BELONGING TO SPAIN'S HISTORICAL AND ARTISTIC HERITAGE

In 2005, the ENDESA Foundation sponsored the illumination of the following monuments: Tránsito de los Estudios at Universidad Pontificia de Salamanca, the church of Santa María de Artés in the Arán Valley, the monastery of Santa María de Valbuena in Valladolid, the sanctuary of Nuestra Señora de Africa in Ceuta, church and monastery of Nuestra Señora de Monlora in Luna (Zaragoza), monastery of Santa María de La Vid (Burgos), church of San Miguel in Castelló de Farfanya (Lérida), various places of worship at the Maestrazgo de Teruel (Gargallo church tower, chapel of Loreto de Villarroya Pinares and church of Villarluengo).

Additionally, the Foundation signed agreements with the Conferences of Bishops of Spain, Colombia, Chile and Peru to illuminate religious buildings pertaining to the artistic and historic heritage of these countries. This activity helps bring significant elements of countries' history, art and culture closer to their citizens, strengthens the tourist potential of cities in which they are located and responds to the needs outlined by their representative institutions. In 2005, the following illumination projects were carried out:

- *Colombia*: Ibagué and Caqueza cathedrals and churches of Santa Bárbara and Padre Jesús in Santa Fe de Antioquia, churches of Santa Bárbara and San Antonio and chapel of Jesús in Barichara.
- *Chile*: Linares and Los Ángeles cathedrals, church of San Agustín in Concepción, church of Nuestra Señora de los Pobres in Huechuraba and parish church of Jesús Nazareno in Santiago, church of Mincha in Illapel.
- *Peru*: Church of Los Descalzos and church of San Francisco in Lima.

Furthermore, within the framework of agreements signed with other institutions in Spain, in 2005 it illuminated the church of Nuestra Señora del Carmen in Cadiz and the church of La Virgen del Mar and the former railway station in Almería, coinciding with the celebration of the Mediterranean Games, the main façade of the National Library in Madrid, Montserrat monastery in Barcelona, and the Kazbah and other landmarks in Agadir, Morocco.

3.2. COOPERATION IN SOCIAL INITIATIVES IN SPANISH COMMUNITIES

In 2005, the Foundation sponsored several Spanish institutions and corporations to build infrastructure and develop cultural and environmental activities: refurbishment of municipal swimming pools in the municipalities of Andorra (Teruel) and Mequinenza (Zaragoza), Endesa Fine Arts scholarships at the provincial offices of the central government in Teruel, Teruel University summer school and concerts in the XVII edition of the city's Music Week, murals by Miguel Barceló at Palma de Mallorca cathedral, electricity installation at the chapel of Nuestra Señora del Pilar in Fayón (Zaragoza), environmental adaptation project for the lake system in Vall Fosca, etc.

Also in 2005 the Endesa Foundation signed an agreement with the Office of the Central Government Representation in Aragón, Ebro Hydrographic Confederation and municipalities located in the Aragonese Pyrenees, Ibercaja and Endesa, S.A., to perform environmental adaptation activities for the *Ibones* (glacial lakes) in Aragón, a project to be rolled out over several years. The interventions performed last year focused on the Marboré, Urdiceto and Respomuso glacial lakes.

3.3. CULTURAL DEVELOPMENT IN OTHER COUNTRIES

The Foundation sponsors cultural activities in countries where ENDESA operates. Some of the most noteworthy interventions in 2005 were as follows: Scholarship for Doctoral Thesis at Salamanca University's Centre for Brazilian Studies, joint publication of a book as a tribute to Cervantes in partnership with the Chilean Embassy, sponsorship of the Andrés Bello Chair at Salamanca University, sponsorship of the programme of activities at SIALE (Ibero-American Society of Friends of Books and Publishing), Spanish courses at the Cervantes Institute at Tangiers University (Morocco), etc.

Furthermore, in 2005 the Foundation continued with its programme of ENDESA Cultural Heritage Scholarships for Latin American students, in line with an agreement signed with the Spanish Ministry of Culture, and renewed its support for the *Fundación Pro Real Academia Española* for the revision of Americanisms in the Spanish Royal Academy's Dictionary, as well as its backing for Fundación Carolina's Master's Programme specialising in Hispanic Philology, etc.

3.4. CONSERVATION AND EXHIBITION OF ENDESA'S HISTORICAL/INDUSTRIAL, DOCUMENTARY AND GRAPHIC ARCHIVES

The Endesa Foundation contributes funds for the restoration, classification and exhibition of machinery, equipment, parts, models, documents and photographs from dismantled facilities and work

centres belonging to ENDESA which form part of its cultural heritage. Some noteworthy interventions in 2005 included:

- In Catalonia, the exhibitions "Electric Power in Catalonia" (La Força Eléctrica de Catalunya) in Badalona (Barcelona) and Mollerussa (Lérida), "Endesa's Environmental Initiatives" (Actuaciones medioambientales de ENDESA) in Barcelona and Madrid, "50th Anniversary of Aigüestortes National Park" (50 Aniversario del Parque Nacional de Aigüestortes) in Vall de Boí (Lérida), plus the loan of images, photographs, documentation and parts for television networks, students pursuing doctorate studies, the media, etc.
- In the south of Spain, the exhibition "Endesa, historical perspectives" (Endesa, un recorrido por la historia), in Melilla, and renewal of the agreement to classify the documentary archive of Sevillana Endesa, in partnership with the Universidad Pablo de Olavide.
- In the Balearic islands, the exhibition at Palma de Mallorca's Science Fair and at the Mallorca Museum entitled "Industry and Technological Innovation on the Balearic islands" (Industriales e Innovación Tecnológica en las Islas Baleares), the recovery of a collection of historic gas metres, classification of parts from the commercial headquarters at Mahón, loan of parts and documentary material, etc.

3.5. (SYNTHESIS: 15 YEARS OF ENDESA FINE ARTS SCHOLARSHIPS) EXHIBITION

To promote and support the work of artists who have received Endesa Fine Arts Scholarships, the Endesa Foundation and Teruel Museum planned an exhibition encompassing all 8 editions held between 1989 and 2005, coinciding with the XV anniversary of the scholarship programme's creation. The exhibition, which was inaugurated at ENDESA's Madrid headquarters in October, comprises 80 paintings.

3.6. PRINCE OF ASTURIAS CHAIR IN SPANISH STUDIES, AT GEORGETOWN

The Prince of Asturias Chair in Spanish Studies at the University of Georgetown (United States) was created under the sponsorship of the Endesa Foundation in 1999. Since then, it has been part of the Center for European Studies, at the university's Edmund A. Walsh School of Foreign Service and offers courses in Political and Administrative Sciences and Spanish History, Economics, Sociology and Humanities. Over the years, the Chair has helped promote Spanish culture in the United States, with the presence of prestigious specialists in the various subjects taught.

In 2005, the Chair went to Professor Xavier Collier, for three courses on nationalism in the twenty-first century, organisations and society in the globalisation era, and politics and regionalism in Spain.

4. SOCIAL INITIATIVES IMPLEMENTED DIRECTLY BY ENDESA IN SPAIN

ENDESA directly performs a number of social and cultural activities in Spain, via either its corporate headquarters or regional organisations.

Some of these initiatives are singular because of their links with projects which are in the general interest of the country or community in which they are implemented. Others are linked primarily to the interests and needs of the regions in which the Company operates.

4.1. SPONSORSHIPS IN THE GENERAL INTEREST

Among the general interest sponsorships undertaken by ENDESA in 2005 are the America's Cup, XV Mediterranean Games in Almeria, commemoration of the IV centenary of Cervantes's Don Quixote, aid to various Foundations which perform activities of a clearly social and cultural bias, maintenance of the ADO Olympic sports programme and cooperation with a number of university institutions.

America's Cup

The America's Cup is a sailing trophy dating back 150 years which has recently become a major international sporting and social event.

In November 2003, following a tender involving other major European cities, Valencia was chosen to host the 32nd edition of the Cup, to be held in 2004-2007. ENDESA is an official sponsor of this 32nd edition of the Cup, alongside a very select group of renowned multinational companies that are leaders in their respective sectors.

ENDESA's contribution to sponsoring the America's Cup is consistent with its presence in Mediterranean Europe, its interest in significantly expanding the activities it already performs in the Valencian market, and its traditional commitment to projects of this nature in the national interest.

XV Mediterranean Games in Almeria

In 2005, the XV edition of the Mediterranean Games was held in Almeria, and their significance in the Mediterranean Basin outstripped their sporting interest since they constituted a place of meeting and understanding between countries of different cultural identities which came together in a geopolitical and economic context of singular importance.

ENDESA helped organise the Games in its capacity as one of the leading energy companies in the Mediterranean and one of the main energy suppliers to the city and region of Spain that hosted the Games.

4.2. REGIONAL SPONSORSHIP INITIATIVES

Below, we list the main social and cultural sponsorship initiatives performed in 2005 via ENDESA's regional organisations in Spain and linked primarily to the needs of the respective local communities.

In Catalonia, Fecsa Endesa helped develop activities for various public and private institutions in Catalonia, such as Fundació Gran Teatre del Liceu and Teatre Nacional de Catalunya, and has supported consolidation of the Victoriano Muñoz Chair at Universidad Politécnica de Cataluña and Catalanian Book Week, organised by Cambra del Llibre de Catalunya. It also participated in the televised charity marathon organised yearly by TV3 to raise funds for researching certain illnesses and which in 2005 focused on the fight against brain disease.

The company also participated in Setmana de l'Energia, a set of cultural, social and environmental initiatives relating to the world of energy and organised by the Catalanian Department of Employment, Industry, Commerce and Tourism's Energy Institute.

Furthermore, it supported a number of actions aimed at helping social and cultural initiatives launched by various universities, municipal and regional councils and professional and business associations in Catalonia's social and economic sector. Finally, Endesa took part in the anniversary celebrations of Don Quixote, via the publication of a revised version of Cervantes' work written by an expert who is also an employee of the Company.

A good deal of the social sponsorship initiatives carried out by ENDESA in Andalusia and Badajoz are undertaken by Fundación Sevillana Endesa, created in December 1988. Its main activity is the illumination of monuments and civil and religious buildings of artistic interest. In 2005, these illumination projects included the outside of the churches of Nuestra Señora de la Purificación in Almendralejo (Badajoz), Santa Marina (Córdoba), Santo Domingo de Guzmán in Lepe (Huelva) and Nuestra Señora del Pilar (Granada), and interior lighting in the church of Santa María de la Asunción in Alcalá del Río (Seville), Basílica de Nuestra Señora de la Merced, Patron Saint of Jerez de la Frontera (Cadiz), church of San Julián in Seville, the throne room at La Hermandad de los Estudiantes de Málaga, etc.

Furthermore, coinciding with the Mediterranean Games in Almeria, in conjunction with the Endesa Foundation, the convents of Las Puras and Las Claras, the churches of San Juan, San Roque, and Virgen del Mar, and the exterior of the old railway station were all illuminated.

In addition to the XV Mediterranean Games in Almeria, in 2005 Sevillana ENDESA directly sponsored the Closing Ceremony of Seville University's Centenary Celebrations, the Seminar at Seville University on the II Andalusian Regional Development Report, the Summer Course at Universidad Pablo Olavide in Carmona entitled "Encuentros Sostenibles II", the GEM project for the creation of companies in Andalusia promoted by the University of Cadiz, the Linares Inter-

national Chess Tournament, the Environment Symposium in Seville, the first Huelva Business Fair, the Roman Theatre Festival in Merida, etc.

Activities undertaken by Gesa Endesa in the Balearic islands include the illumination of the churches of Santa Margarita and Caputxins, and sponsorship of the exhibition of liturgical ornaments of the Convent of Las Clarisas Capuchinas, the Balearic Ornithological Guide, the first attempt at scaling Mount Everest by an expedition from Majorca, a documentary on Posidonia in the marine beds off the shores of Ibiza and Formentera, etc.

In the Canary Islands, it is worth noting the traditional support from Unelco Endesa for the islands' popular *fiestas*, the carnival in the capital cities of the two Canary island provinces and other cultural events, such as the *fiestas* of Nuestra Señora del Pino (Gran Canaria), Puerto del Rosario (Fuerteventura), the multicultural Womad festival or commemoration of the *Bajadas de La Virgen*, which in 2005 took place on the Islands of El Hierro and La Palma. Furthermore, the company continued to lend its support to the organisation of other artistic events, such as the International Canary Islands Music Festival, which in 2005 held its XXI edition, and the VI Cinema Festival in Las Palmas de Gran Canaria.

In training initiatives, Unelco Endesa contributed to Fundación Universitaria de Las Palmas's "Innova" Grant Programme, signed agreements with Universidad de Las Palmas de Gran Canaria, Universidad de La Laguna and Universidad a Distancia, and sponsored summer activities at the Universidad Ambiental de La Palma and Universidad de Verano de La Gomera.

Lastly, it is worth recalling the support which Unelco Endesa has been providing for decades for sports initiatives in the Canary Islands, especially grass-roots activities aimed at young people and at encouraging them to engage in local sports, such as Canary Island wrestling.

Finally, ERZ Endesa in Aragon has carried out the following sponsorship activities, among others: Expo Zaragoza 2008, the Pyrenees Theme Park (Pirenarium), and Santa María de Albaracín and Zaragoza Ciudad del Conocimiento Foundation. It was also involved in the World Conference on Ecological Restoration and the XVI biennial of Spain's Royal Historical Society (*Real Sociedad Española de la Historia Natural*), as well as helping various ventures in the fields of sports and popular local celebrations.

5. SOCIAL INITIATIVES CARRIED OUT IN 2005 BY ENDESA'S LATIN AMERICAN HOLDINGS

ENDESA's Latin American holdings are deeply committed to social initiatives, either directly or via Foundations they have created for specific activities: Fundación Pehuén, Fundación Huinay and Fun-

dación Chiletra Activa in Chile, and Fundación Emgesa and Fundación Codensa in Colombia.

In general, the initiatives of ENDESA's Latin American companies centre on meeting the needs of disadvantaged groups or communities in the areas where they operate, collaboration with social institutions on projects providing assistance to families, children and the disabled, training people on the safe and efficient use of electricity, and participating in projects that foster the preservation of the cultural identity of the regions or countries where they are present.

This social initiative realises a large number of individual projects which are described in detail in the reports on sustainability and social responsibility issued by the respective companies or by ENDESA itself. Accordingly, we list only a representative selection of these.

5.1. SOCIAL INITIATIVES IN CHILE

Enersis' main activities

Church illumination projects. Last year, Enersis obtained the 2005 award for the Conservation of National Monuments, in the Business category, conferred annually by the Council for National Monuments, for its Churches of the Southern World illumination programme, as part of which it has illuminated some thirty monuments. The programme is backed by the Chilean government, which approved it via the Committee for the Cultural Donations Act. Furthermore, Fundación Futuro praised Enersis for the same programme, granting it the 'Ciudad' award for its significant contribution to the development of cities to enhance quality of life therein.

Contribution to regional development. For the second year running, Enersis held a round of conferences to boost economic, political and social debate in all the country's regions, in partnership with Diario Financiero in the cities of La Serena, Valparaíso, Santiago, Iquique, Antofagasta, Concepción, Temuco, Puerto Montt, Valdivia and Punta Arenas.

Book donation. Within the framework of cooperation with the daily newspaper El Mercurio, Enersis handed over more than 4,000 books to centres in outlying communities to help children and young people; these centres included the public library in Hornopirén, the G-8 school in Los Molles and the Zúñiga municipal library.

Endemic species. Enersis and the daily newspaper El Mercurio, sponsored by the Education Ministry, Fundación San Ignacio del Huinay, Conama and Conaf, and with the cooperation of young researchers, published a series of files, with a circulation of 140,000, on the country's fauna currently in danger of becoming extinct: the Chilean woodstar (*Eulidia yarrellii*), the Juan Fernández fur seal (*Arctocephalus philippii*), the chinchilla mouse (*Abrocoma benetti*) and cold-water coral species (*Tethocyathus endesa*).

Christmas for poor children. Enersis helped organise this party for more than 55,000 children aged between 5 and 12 and belonging to 189 institutions devoted to helping children at social risk, by cooperating in finding transport for the children, drafting the safety plan, and providing support both while the children were at the venue and for their return home.

Chilectra's main activities

Fundación Chilectra Activa. In 2005, Fundación Chilectra Activa was launched to channel the work of Chilectra in enhancing education quality. Worthy of mention in this field are the Award for Best Practices in Education, the Chilectra Chair, the Volantín Campaign, the Foundation Bus and the Bicentenary Stamp. Furthermore, teaching excellence was rewarded within the framework of the developmental seminar "Updating Household Electrical Applications", which involved more than 80 teachers from schools and industrial colleges from the metropolitan region.

In order to boost such initiatives, Chilectra, Chilecalifica and Fundación Chilectra Activa signed an agreement to hone technical education quality, as part of the activities of the Education and Business Chapter of Agenda Pro Crecimiento II.

Commitment to the community In 2005, the company held the IV edition of the Chilectra "Beat Drugs" (Gánale a la Droga) Cup, which was organised and backed by Conace, Unicef and Fundación Iván Zamorano, and whose objective is to encourage children to play sport as a means of mitigating the lack of leisure alternatives and the tendency to resort to drugs.

Furthermore, an agreement was signed with the Association of Community Radio Stations (AMARC) to participate in fourteen community radio broadcasts in the metropolitan area with educational micro-programmes called "Comunidad Activa".

Finally, it implemented an educational campaign with the Chilean Red Cross, involving more than three thousand volunteers who visited homes in the metropolitan area providing information on the safe use of electricity and the efficient use of energy. Also, Chilectra distributed more than 250,000 efficient light bulbs to foster rational energy usage.

Spreading culture. The company contributed to World Book Day celebrations, dedicated specially to Don Quixote, with an underground railway train with texts from the work, a collection of engravings and a marathon of readings from the book. It also participated in the 25th International Book Fair in Santiago, the country's top cultural event. Furthermore, the company held the first Braille Reading Competition entitled 'más lectura, más cultura', organised together with the 'Baldomero Lillo' Blind Adults Organisation and the Ministry of Culture.

Endesa Chile's main activities

Fundación Pehuén. In 2005, it continued with its programmes in support of the community, completing the shoreside tourist infra-

structure at the Ralco plant reservoir and promoting tourism in the same region, benefiting several communities in the Alto Bío-Bío, within the framework of an agreement with the Inter-American Foundation (IAF). Projects concerning the Quepuca community also continued: wheat was sown, irrigation systems set up in Pitiril, the El Barco lagoon closed off, and support provided for the El Avellano bee-keeping project, etc.

In education, there were scholarships for students from the areas surrounding the Alto Bío Bío, dorms were refurbished in the Ralco school, school clothing was distributed to community school children, the bathrooms at the Lepoy municipal gym were repaired and community school radio was set up.

The Foundation's cultural activities included a programme to promote the cultural identity of the various communities of the Alto Bío Bío and projects were implemented in Pitiril aimed at improving Nguilatún woodcrafts.

In the field of social and community assistance, homes were built in the Ayín Mapu community and in Pitiril and Callaqui, wineries in Callaqui and Lepoy and there was backing for the application and processing of social grant aid.

Fundación Huinay. Launched in 1998 by Endesa Chile and La Pontificia Universidad Católica de Valparaíso, Fundación San Ignacio del Huinay performs scientific research to conserve the biogeographical heritage of the Huinay area, via a project based on the concept of sustainable development.

Among the main activities undertaken in 2005 were the collection and classification of organisms from the fjords for the Handbook of Invertebrates, participation in the Latin American Ocean Sciences Congress, presentation of a molecular phylogeny project for anemones at the Smithsonian Institute in Washington and the State Zoology Collection in Munich, involvement in the First International Marine Protected Areas Congress (IMPAC1) in Australia and meetings with fishermen and authorities in the region: fishermen's union, COREMA, CONAMA and the Coastal Commission (Comisión Borde Costero).

5.2. SOCIAL INITIATIVES IN ARGENTINA

Edesur's main activities

Campaign to find missing children. For the third consecutive year, Edesur renewed its agreement with Missing Children of Argentina to help find missing children by printing their photographs on electricity bills.

Programme of cooperation with children's canteens. For the fourth consecutive year, Edesur helped Caritas Argentina implement a food donation programme for community canteens in the poorest areas of southern Gran Buenos Aires, which in 2005 helped more than 105,000 children at 510 canteens to which the company delivered

more than 350,000 kilos of food. The programme received a notable contribution from customers who in the year made more than 1,750,000 donations from the coins returned when paying their bills in cash.

Mural painting programme in electricity substations. Edesur implements this programme in conjunction with the General Directorate for Primary Schools dependent upon the Buenos Aires Government's Education Secretariat for students to learn mural painting techniques and contribute to embellishing their neighbourhood. In 2005, more than 250 children from 7 schools in the Boedo and San Cristóbal quarters painted 7 murals on the outside walls of the new Independencia substation.

Education campaign "Edesur for kids". This is an education campaign to promote the safe and efficient use of energy electricity among children. In 2005, 6 events were held involving 6,600 children.

Initiatives aimed at the disabled. At its commercial offices, the company has set aside an area of alternative expression in which to promote art and culture and to integrate people with disabilities. The exhibitions are backed by the CONADIS-National Advisory Committee for the Integration of Disabled People. It also continued to perform work to replace the bell system at special schools for hearing-impaired children with a system of luminous signals. Efforts in 2005 focused on a special school where 350 disabled children study.

5.3. SOCIAL INITIATIVES IN COLOMBIA

Codensa's main activities

Campaign to Prevent Electrocutation. In 2005, 15,000 people attended the educational talks in this campaign and 2 million leaflets were distributed with electricity bills.

Efficient and safe use of electricity. Paseo de la Electricidad, an educational-fun programme focusing on the basics, applications and good use of electricity, was visited in 2005 by 3,800 children aged 7 to 12 from public and private schools in Bogota and Cundinamarca.

Furthermore, during the year 256 talks on the productive, efficient and safe use of energy, customer rights and obligations, prevention of electrocution, etc. were given to a total of 12,500 people. Finally, 32 "Electricity Caravans" were held in the year, involving 21,000 people.

Energy watches. In 2005, 713 new watches involving 15 schools in Bogota and Cundinamarca were added to this programme, which offered training via 60 workshops on customer rights and obligations, bills, efficient energy use, prevention of electrocution and youth leadership.

Cooperation with municipal governments. 54 meetings were held with mayors, municipal councils and community action committees in municipalities to discuss issues relating to the service and to address the interests of the respective communities. Furthermore,

support was provided for children's parties in 55 municipalities with the participation of 13,500 children, and for 18 municipalities in agricultural, cultural and religious festivities and youth meetings and sessions to integrate women breadwinners, among others.

Emgesa's main activities

Improve community infrastructure. The company performed the following projects, among others: embellishment of the Parque Central de Mámbita and improvements to school equipment in the municipalities of Ubalá and San Antonio del Tequendama.

Help in the productive development of local communities. Fundación Emgesa offered training activities in regard to organic agricultural production for 28 farmers in the Tequendama region, and performed a study to mount the first Processing Centre for organic farm products in this region. In the Guavio area, improvements were made to the system for marketing greenhouse tomatoes, helping 65 families, and in Mámbita the pond fish farming project continued, involving 30 poor families.

Main initiatives of Betania. The Betania plant helped in the illumination of churches in 35 municipalities, sponsored the Bambuco Festival, one of the country's largest, and contributed to boosting the income of the population in its catchment area, by supporting self-sustainable projects.

5.4. SOCIAL INITIATIVES IN PERU

Edelnor's main activities

Employment training for young people. The Technology Institute (Instituto Superior Tecnológico) was created in the Nuevo Pachacutec region to generate professional development opportunities among young people studying the technical electricity course. Edelnor helps provide electricity for the institute's classrooms and workshops and sends experienced experts to give training courses.

"Light of Hope" Campaign. Edelnor cooperates with the Peruvian National Police Force and the Civil Association-Sinacoop "Friends of the Peruvian Police" to find missing children and elderly people, by printing their photos on electricity bills.

Paseo de la Electricidad. This is an educational programme aimed at children aged 8 to 12, explaining the processes relating to electricity from generation to supply to households, and regarding its importance for quality of life. Since its creation, the programme has been visited by more than 110,000 children.

Issuance of bills in Braille. In 2005, the company started to issue utilities' bills in Braille to help blind people.

Support for municipalities. Within the framework of cooperation with municipalities in its concession area, Edelnor helped replant

parks and gardens in a number of districts (San Miguel, El Callao, Magdalena, Lima and Pueblo Libre) and financed educational programmes for children.

Edegel's main activities

Teacher training. In partnership with UGEL 15 (Education Ministry), the company helped train around one hundred teachers in environment, leadership, and personal motivation in Huarochirí province.

Clean and Healthy Schools. This initiative, in conjunction with the Education Ministry, involved 2,000 children and 50 teachers from the Chosica district, who presented projects on keeping schools clean, setting up organic gardens, caring for the environment, etc.

School Breakfast. Help was given to provide breakfast to children at Pacaybamba, Yanayacu and Utcuyacu.

Replanting. The inhabitants of the Jicamarca community helped plant 6,000 trees for reforestation and creation of green areas for the inhabitants of Asociación de Vivienda Valle El Triunfo, Portales de Basilio Auqui, Los Olivos, El Ayllu and Avenida 13 de Junio.

Safe relocation of families. In November 2005, Edegel spearheaded a project to relocate people from Pacaybamba, on the shores of the River Tulumayo, in Junín. Based on reports compiled by Civil Defence warning of the dangers of living on the river's shores, the 20 families living in this area sought Edegel's support to be relocated in a safe area. In partnership with the municipality of Monobamba, Edegel helped build new houses, a community building and a school, and connect water and sewerage facilities for these families.

Etevensa's main activities

Water service and vaccination campaign in Parque Porcino. Etevensa rehabilitated the water well at the Parque Porcino settlement (where works began in 2004), providing water services to the settlements near the plant.

Illumination of the Andahuaylillas church. In addition to the illumination of churches and monuments within the framework of the agreement signed in Peru by the Endesa Foundation, Etevensa cooperated with Eepsa in illuminating the church of Andahuaylillas, in Cuzco, one of the most popular in the region.

Eepsa's main activities

Initiatives at schools. The company's employees distributed school materials to more than 1,400 students at Centros Educativos 14901 and 15301, and Santa Elena School in Piedritas.

At the latter centre, with the support of specialists, it organised talks for heads of families on issues relating to family values, childhood, the importance of communication with children, etc.

5.5. SOCIAL INITIATIVES IN BRAZIL

Coelce's main activities

The company continued with its programme "Coelce in Schools" to educate students in the efficient use of energy and environmental conservation. In 2005, the project was implemented at 100 schools, involving 1,150 teachers and 114,000 students.

Ampla's main activities

Rural electrification and universalisation of the electricity service.

Ampla has made sizeable investments in recent years to take electricity to rural communities via agreements with the Federal Government and the State of Rio de Janeiro, deriving initially in the Light in the Country Programme and, since 2004, the Light for Everyone Programme.

Prior to the Light in the Country Programme, which ended in 2003, 44% of the company's rural catchment area was electrified. By the end of the programme, electrification levels were 86%, reaching 36,000 households. The Light for Everyone Programme, the ongoing stage of this effort, in 2005 allowed a further 6,000 households to be connected.

Leitura Ampla: a construção do olhar. This is an educational programme aimed at promoting citizens' awareness based on reflections concerning issues of ethics, identity, violence, environmental education and responsible consumption via talks and practical workshops. More than 350,000 children from 352 public schools were involved.

Interculturality. The company helped organise debates and talks at Universidad Federal Fluminense on artistic and cultural expansion in the region, with the involvement of many teachers, intellectuals and artists.

Energy Guardians. Around one thousand children from Duque de Caxias and São Gonçalo were trained as community and family monitors in respect of the rational use of energy.

"Compartir" Volunteer initiatives. Company employees and partners volunteered to take part in a programme to help needy communities restructure electric and water facilities for nurseries, schools, homes, etc.

Ampla Solidaria. Social workers from the company helped needy families to access government aid programmes, among other projects created to help these people, such as toy, clothes and food donation.

Ampla Visión. Services to the visually-impaired, who receive their energy bill and important information about the company in Braille.

The Installed Art Project. To incentivate education, cultural development and the possibility of boosting household income, Fundação Casa Amarela—which helps a thousand people aged 7 to 80—offers craft workshops to needy families in São Gonçalo.

Food Donation. In 2005, the company carried out three major food donation campaigns: “Porciúncula flood victims”, “UnAñoAmpla” and “Christmas without Hunger”. In total, company employees collected and distributed 38 tonnes of food.

Young Energy. This programme consists of thematic workshops on electricity usage, prevention of sexually transmitted diseases and environmental conservation for young people who thus become information monitors within their communities. 16,000 people took part in 2005.

Efficient use of energy. The company implemented Proyecto Superación, aimed at raising community awareness in respect of the efficient use of energy involving 22,600 people. Furthermore, within the framework of the Energy Efficiency Programme, electricity facilities in precarious operating conditions were replaced and 35,000 compact fluorescent lamps were destroyed.

Finally, as part of its Renewable Energy Project, Ampla invested in projects aimed at replacing conventional water heating systems with systems based on solar energy, in order to help philanthropic institutions working for the health and well-being of the deprived.

Fortaleza and Cachoeira Dourada plants’ main activities

These plants performed support activities for people residing in their catchment areas, including the supply of seedlings for plantation, distributing food to the needy, donating orthopaedic prostheses and providing cooking equipment to community canteens.

In the educational sphere, the plants helped supply teaching equipment to schools, which they also supplied with computers, and educational campaigns on the efficient and safe use of electricity were carried out.



APPENDICES

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MAIN COMPANIES OF THE ENDESA GROUP

**ENDESA GENERACIÓN**

Corporation
 Date of incorporation:
 22 September 1999
 Registered office: Avenida de la
 Borbolla, 5. 41004 Seville
 Tax ID: A 82434697

Endesa Generación was created as a holding vehicle for ENDESA's generating and mining assets in Spain following the integration of all subsidiaries incorporate in Endesa Europa and in Endesa Cogeneración y Renovables (ECyR) except Gas y Electricidad Generación, S.A.U., and Unión Eléctrica de Canarias Generación, S.A.U., which are 100%-owned by Endesa Generación. These subsidiaries may be incorporated within the company at a later date, if deemed appropriate on the basis of the status of generating activity in isolated systems at the time.

Chairman-Senior Vice-President

Manuel Morán Casero

Board members

José María Plans Gómez
 and Jaime Reguart Pelegrí

Secretary non board member

Antonio del Pozo González

**ENDESA RED**

Corporation
 Date of incorporation:
 22 September 1999
 Registered office:
 Avenida del Paralelo, 51.
 08004 Barcelona
 Tax ID: A 82434663

The creation of Endesa Red marked the culmination of the integration of ENDESA's regional distribution companies in Spain.

The companies grouped under this umbrella include Endesa Distribución Eléctrica, S.L., Endesa Operaciones y Servicios Comerciales, S.L. and Endesa Gas, S.A. Endesa Distribución Eléctrica manages ENDESA's activities in the regulated electricity transmission and distribution businesses, as well as power sales to customers who receive their electricity at the rates set by the Spanish government. Endesa Operaciones y Servicios Comerciales, S.L. provides commercial support to ENDESA's power companies, while Endesa Gas, S.A., groups together ENDESA's holdings in companies active on the regulated natural gas market.

It also has a controlling stake in Endesa Ingeniería.

Chairman-Senior Vice-President

José Luis Marín López-Otero

Board members

José Antonio Martínez Fernández
 and José María Rovira Vilanova

Secretary non board member

Julio Molinario Valls

**ENDESA ENERGÍA**

Corporation
 Date of incorporation:
 3 February 1998
 Registered office:
 C/ Ribera del Loira, 60.
 28042 Madrid
 Tax ID: B 81948077

Endesa Energía retails energy on the deregulated market, responding to the requirements of the Spanish electricity sector post-deregulation.

The company supplies energy and value-added services to customers who have opted to exercise their right to choose an energy supplier and receive services on the deregulated market.

Endesa Energía also supplies energy on the deregulated markets of various other European countries.

Chairman

Javier Uriarte Monereo

Board members

Francisco Arteaga Alarcón
 and José Antonio Gutiérrez Pérez

Secretary non board member

Francisco Ruíz Risueño



ENDESA SERVICIOS

Limited Liability Company
 Date of incorporation:
 18 February 1999
 Registered office:
 C/ Ribera del Loira, 60. 28042 Madrid
 Tax ID: B 82265364

Endesa Servicios was created to bring the support services provided by each of ENDESA's holdings together in a single company.

This company's core activities include the definition of corporate procurement policies, management of global supplier contracts and the contracts of IT and telecommunications system suppliers, asset management, and lastly, the implementation of corporate strategy in respect of technological development, innovation and knowledge management.

Joint Senior Vice-Presidents

Antonio Pareja Molina
 and Francisco Ramón Cabezas Navas



ENDESA PARTICIPADAS

Corporation
 Date of incorporation: 27 January 1998
 Registered office:
 C/ Ribera del Loira, 60. 28042 Madrid
 Tax ID: A 81932915

Endesa Participadas was created out of the new organisational model introduced by ENDESA in July 2004, entailing the partial spin-off and transfer of certain assets formerly owned by Endesa Diversificación, which was subsequently wound up. Its main purpose is to oversee the divestment of non core assets.

Joint Senior Vice-Presidents

Carlos Torres Vila and José María Calvo-Sotelo Ibáñez-Martín



EUROPE

ENDESA EUROPA

Limited Liability Company
 Date of incorporation:
 21 December 2000
 Registered office:
 C/ Ribera del Loira, 60. 28042 Madrid
 Tax ID: B 82846791

Endesa Europa was created to cement ENDESA's presence in other European countries and exploit the organic growth potential and development opportunities afforded by these markets by bringing together under one umbrella the administration and management of ENDESA's various interests in Europe, which now that its Portuguese assets have been transferred to Endesa Generación, consist of Endesa Italia (Italy), Snet and Soprolif (France), Endesa Trading and assets that ENDESA has in Poland.

Chairman Rafael Miranda Robredo

Board members

- José Serna Masía
- Francisco Javier Ramos Gascón
- Francisco Núñez Boluda
- Jesús Olmos Clavijo
- José Luis Oller Ariño
- José Hurtado Amador
- Alberto Recarte García-Andrade
- Emilio Zurutuza Reigosa

Secretary non board member

Rafael Fauquie Bernal

LATIN AMERICA

ENDESA INTERNACIONAL

Corporation
 Date of incorporation: 26 January 1998
 Registered office:
 C/ Ribera del Loira, 60. 28042 Madrid
 Tax ID: A 81932873

The purpose of Endesa Internacional is to manage ENDESA's activities in the Latin American market, by taking charge of the management of a large number of companies, in which ENDESA's capital interests give it a position of control, the principal holdings being Enersis, Endesa Chile and Chilectra (Chile), Edesur, Costanera, Dock Sud and El Chocón (Argentina), Cien, Endesa Fortaleza, Ampla and Coelce (Brazil), Emgesa and Codensa (Colombia), Edegel and Edelnor (Peru).

Chairman Rafael Miranda Robredo

Board Member-Executive Vice-

President Luis Rivera Novo

Board members

- José Bohórquez Mora de Figueroa
- Rafael Español Navarro
- José Fernández Olano
- Manuel García Sánchez
- Rafael González-Gallarza Morales
- Roberto Molero Gómez-Elegido
- Manuel Ríos Navarro

Secretary non board member

Alfonso Arias Cañete

ENDESA IN THE SPANISH ELECTRICITY MARKET

ENDESA distributes electricity in the Spanish market through the following organisational structure.

ERZ ENDESA

Chairman *
Amado Franco Lahoz

General Manager **
José Antonio Gutiérrez Pérez

FECSA ENDESA

Chairman *
Antón Costas Comesaña

General Manager **
José María Rovira Vilanova

GESA ENDESA

Chairman *
Bartolomé Reus Beltrán

General Manager **
Jaime Reguart Pelegrí

SEVILLANA ENDESA

Chairman *
Jaime Ybarra Lloset

General Manager **
José Antonio Martínez Fernández

UNELCO ENDESA

Chairman *
Ángel Ferrera Martínez

General Manager **
José María Plans Gómez

ENDESA'S COMPANIES IN EUROPE ITALY

ENDESA ITALIA

Chairman
Jesús Olmos Clavijo

CEO
Álvaro Quiralte Abelló

FRANCE

SNET

General Manager
Joaquín Galindo Vélez

* Head of ENDESA's advisory board in this region.

** ENDESA General Manager for this region.

CHILE

ENERSIS

Chairman
Pablo Yrarrázabal Valdés

General Manager
Mario Valcarce Durán

ENDESA CHILE

Chairman
Luis Rivera Novo

General Manager
Rafael Mateo Alcalá

CHILECTRA

Chairman
Jorge Rosemblut Ratinoff

General Manager
Rafael López Rueda

ARGENTINA

EDESUR

Chairman
Rafael Juan Fernández Morandé

General Manager
José María Hidalgo Martín-Mateos

COSTANERA

Chairman
Rafael Mateo Alcalá

General Manager
Miguel Ortiz Fuentes

CHOCON

Chairman
Rafael Mateo Alcalá

General Manager
Fernando Claudio Antognazza

DOCK SUD

Chairman
Vito Camporeale S. (YPF)

General Manager
José Miguel Granged Bruñen

CEMSA

Chairman
José M^a Hidalgo Martín-Mateos

General Manager
José Roberto Fagan Pecollio

CTM

Chairman
D. José M.^a Hidalgo Martín-Mateos

General Manager
D. Francisco Javier Bugallo Sánchez

TESA

Chairman
José M^a Hidalgo Martín-Mateos

General Manager
Francisco Javier Bugallo Sánchez

BRAZIL

AMPLA

Chairman
Manuel Jorge Correia Minderico (EDP)

General Manager
Marcelo Andrés Llévènes Rebolledo

COELCE

Chairman
Mario Fernando de Melo Santos

General Manager
Cristián Fierro Montes

CDSA

Chairman and General Manager
Francisco Javier Bugallo Sánchez

CIEN

Chairman
Marcelo Andrés Llévènes Rebolledo

General Manager
Francisco Javier Bugallo Sánchez

ENDESA FORTALEZA

Chairman
Francisco Javier Bugallo Sánchez

General Manager
Manuel Herrera Vargas

COLOMBIA

CODENSA

Chairman
Andrés Regué Godall

General Manager
José Alejandro Inostroza López

BETANIA

Chairman
Lucio Rubio Díaz

General Manager
Carlos Alberto Luna Cabrera

EMGESA

Chairman
Andrés Regué Godall

General Manager
Lucio Rubio Díaz

PERU

EDELNOR

Chairman
Reynaldo Llosa Barber (Grupo Crédito)

General Manager
Ignacio Blanco Fernández

EDEGEL

Chairman
Rafael Mateo Alcalá

General Manager
José Griso Ginés

ETEVENSA

Chairman
Ignacio Blanco Fernández

General Manager
Hernán Salazar Zencovich

PIURA

Chairman
Ignacio Blanco Fernández

General Manager
Bernardo Canales Fuenzalida

DOMINICAN
REPUBLIC**CEPM**

Chairman
Rolando González Bunster
(local partner)

General Manager
Marciano Bello Izquierdo



APPENDICES

ENDESA'S GENERATION FACILITIES IN SPAIN AND PORTUGAL AT 31 DECEMBER 2005

SPAIN	Location	Type of fuel	No of groups	Installed Capacity (MW)	% Endesa	Capacity corresponding to Endesa (MW)
MAINLAND SYSTEM						
THERMAL PLANTS						
Carbón						
Compostilla	Cubillos del Sil-León	H-A	4	1,199.6	100.0	1,199.6
Anllares	Anllares-León	H-A	1	365.2	33.3	121.7
As Pontes	As Pontes-La Coruña	BrL	4	1,468.5	100.0	1,468.5
Teruel	Andorra-Teruel	BL	3	1,101.4	100.0	1,101.4
Litoral	Carboneras-Almería	IC	2	1,158.9	100.0	1,158.9
Los Barrios	Los Barrios-Cádiz	IC	1	567.5	100.0	567.5
Total Coal			15	5,861.1		5,617.6
Fuel-gas						
Foix	Cubelles-Barcelona	F-GN	1	520.0	100.0	520.0
San Adrián 1 & 3	San Adrián-Barcelona	F-GN	2	700.0	100.0	700.0
San Adrián 2	San Adrián-Barcelona	F	1	350.0	100.0	350.0
Cristóbal Colón	Huelva	F-GN	2	308.0	100.0	308.0
CCGT						
San Roque 2	San Roque-Cádiz	CCTG	1	408.3	100.0	408.3
Besós 3	Besós-Barcelona	CCTG	1	387.8	100.0	387.8
Tarragona 1	Tarragona	CCTG	1	395.0	100.0	395.0
Total fuel-gas			9	3,069.1		3,069.1
TOTAL THERMAL			24	8,930.2		8,686.7
Nuclear						
Ascó I	Ascó-Tarragona	N	1	1,032.5	100.0	1,032.5
Ascó II	Ascó-Tarragona	N	1	1,027.2	85.0	873.1
Vandellós II	Vandellós-Tarragona	N	1	1,087.1	72.0	782.7
Garoña*	Stª Mª Garoña-Burgos	N	1	466.0	50.0	233.0
Almaraz I	Almaraz-Cáceres	N	1	981.6	36.0	353.4
Almaraz II	Almaraz-Cáceres	N	1	987.9	36.0	355.7
Trillo*	Trillo-Guadalajara	N	1	1,067.5	1.0	10.7
TOTAL NUCLEAR			7	6,649.8		3,397.4**
HYDROELECTRIC						
CONVENTIONAL HYDROELECTRIC						
NE Spain hydroelectric production unit		H	31	744.3	100.0	744.3
Ebro-Pyrenees hydroelectric production unit		H	51	709.2	100.0	709.2
Zaragoza		H	64	586.0	100.0	586.0
Lleida		H	64	1,246.3	100.0	1,246.3
Southern Spain hydroelectric production unit						
Córdoba		H	48	391.1	100.0	391.1
Antequera		H	52	292.4	100.0	292.4
Pumping plants						
Moralets		H	3	221.4	100.0	221.4
Sallente y Montamara		H	6	534.0	100.0	534.0
Ip y Urdiceto		H	3	84.0	100.0	84.0
Tajo Encantada y Guillena		H	7	570.0	100.0	570.0
TOTAL HYDROELECTRIC				5,378.7		5,378.7
TOTAL MAINLAND				20,958.7		17,462.7**

	Location	Type of fuel	No of groups	Installed Capacity (MW)	% Endesa	Capacity corresponding to Endesa (MW)
NON MAINLAND SYSTEMS						
BALEARIC ISLANDS						
Coal						
Alcudia	Mallorca	CI	4	510.0	100.0	510.0
Fuel-Gas						
Alcudia	Mallorca	G	2	75.0	100.0	75.0
Son Reus	Mallorca	G	11	612.8	100.0	612.8
Mahón	Menorca	F-G	6	169.5	100.0	169.5
Ibiza	Ibiza	F-G	18	257.5	100.0	257.5
Formentera	Formentera	G	1	14.0	100.0	14.0
TOTAL BALEARIC ISLANDS				1,638.8		1,638.8
CANARY ISLANDS						
Fuel-Gas						
Jinamar	Gran Canaria	F-G	13	415.6	100.0	415.6
Barranco de Tirajana	Gran Canaria	F-G	7	461.0	100.0	461.0
Candelaria	Tenerife	F-G	10	288.2	100.0	288.2
Granadilla	Tenerife	F-G	8	513.5	100.0	513.5
Arona	Tenerife	F-G	2	48.6	100.0	48.6
Punta Grande	Lanzarote	D-G	10	174.5	100.0	174.5
Las Salinas	Fuerteventura	D-G	12	185.1	100.0	185.1
El Palmar	La Gomera	D	10	22.8	100.0	22.8
Llanos Blancos	El Hierro	D	8	11.0	100.0	11.0
Los Guinchos	La Palma	D-G	9	80.2	100.0	80.2
Hydroelectric	La Palma	H	1	0.8	100.0	0.8
TOTAL CANARY ISLANDS				2,201.4		2,201.4
CEUTA & MELILLA						
Ceuta	Ceuta	F-D	6	45.9	100.0	45.9
Melilla	Melilla	F-G	7	60.1	100.0	60.1
TOTAL CEUTA & MELILLA				106.0		106.0
TOTAL MAINLAND AND NON MAINLAND				3,946.2		3,946.2
TOTAL ENDESA PLANTS IN SPAIN				24,904.8		21,408.9**

* Garoña and Trillo plants capacity is not consolidated under IFRS.

** Does not include capacity from the Garoña and Trillo plants as these are not consolidated under IFRS - see * above.

Fuel:

H-A (hard coal-anthracite), Brl (brown lignite), BL (black lignite), IC (imported coal),

F (fuel oil), G (gasoil), NG (natural gas), CCGT (combined cycle-gas turbine) D (diesel), N (nuclear), H (hydroelectric).

PORTUGAL

ENDESA operates in the Portuguese generation market through its stakes in the following companies:

- **38.9% of Tejo Energia**, owner of the 600MW Pego coal-fired power station.
- **50% of Sociedade Termica Portuguesa**, owner of 71MW of CCGT plant.
- **100% of Finereg**, owner of 107MW of renewable energy and CCGT capacity.

ENDESA'S GENERATION FACILITIES IN EUROPE AT 31 DECEMBER 2005

Plant	Country	Type of plant	Installed capacity (MW)
Tavazzano	Italy	Thermal	1,840
Monfalcone	Italy	Thermal	976
Núcleo de Terni	Italy	Hydroelectric	530
Ostiglia	Italy	Thermal	1,530
Fiume Santo	Italy	Thermal	1,040
Núcleo de Cotronei	Italy	Hydroelectric	369
Trapani	Italy	Thermal	170
Núcleo de Catanzaro	Italy	Hydroelectric	115
Parco Eólico de Florinas	Italy	Wind	20
Emile Huchet 4	France	Thermal	125
Emile Huchet 5	France	Thermal	343
Emile Huchet 6	France	Thermal	618
Hornaing 3	France	Thermal	253
Provence 5 (Gardanne)	France	Thermal	618
Lucy 3	France	Thermal	270
Soprolif (Gardanne)	France	Thermal	250
Bialystock*	Poland	Cogeneration	330
Altek*	Turkey	Hydroelectric	40
Altek*	Turkey	CCGT	80
Tahaddart	Morocco	CCGT	400

* As a result of ENDESA's holding in Snet.



APPENDICES

ENDESA'S GENERATION FACILITIES IN LATIN AMERICA AT 31 DECEMBER 2005

Plant	Country	Installed Capacity (MW)	Hydro	Fuel / Gas	Coal	CCGT	% Economic Share ENDESA	Capacity corresponding to Endesa (MW)
Los Molles	Chile	18.0	18.0				36.36	6.5
Rapel	Chile	377.0	377.0				36.36	137.1
Sauzal	Chile	76.8	76.8				36.36	27.9
Sauzalito	Chile	12.0	12.0				36.36	4.4
Cipreses	Chile	106.0	106.0				36.36	38.5
Isla	Chile	68.0	68.0				36.36	24.7
Pehuenche	Chile	566.0	566.0				33.69	190.7
Curillínque	Chile	89.0	89.0				33.69	30.0
Loma Alta	Chile	40.0	40.0				33.69	13.5
Abanico	Chile	136.0	136.0				36.36	49.4
El Toro	Chile	450.0	450.0				36.36	163.6
Antuco	Chile	320.0	320.0				36.36	116.4
Pangue	Chile	467.0	467.0				39.55	184.7
Ralco	Chile	690.0	690.0				36.36	250.9
Tarapacá (gas turbine)	Chile	24.0		24.0			36.36	8.7
Tarapacá (coal)	Chile	158.0			158.0		36.36	57.4
Atacama	Chile	780.6				780.6	18.22	142.2
Tal Tal	Chile	244.9		244.9			36.36	89.0
Diego de Almagro	Chile	46.8		46.8			36.36	17.0
Huasco (gas turbine)	Chile	64.2		64.2			36.36	23.4
Huasco (steam turbine)	Chile	16.0			16.0		36.36	5.8
San Isidro	Chile	379.0				379.0	27.27	103.4
Bocamina	Chile	128.0			128.0		36.36	46.5
TOTAL CHILE*		4,476.7	3,415.8	379.9	302.0	379.0		1,589.5
Costanera (steam)	Argentina	1,131.0		1,131.0			23.37	264.3
Costanera (CCGT)	Argentina	851.0				851.0	23.37	198.9
CBA	Argentina	321.6				321.6	23.37	75.2
Dock Sud (CCGT-closed cycle)	Argentina	797.50				797.5	39.91	318.3
Dock Sud (CCGT-open cycle)	Argentina	72.00		72.0			39.91	28.7
El Chocón	Argentina	1,200.0	1,200.0				17.25	207.0
Arroyito	Argentina	120.0	120.0					
TOTAL ARGENTINA		4,493.1	1,320.0	1,203.0		1,970.1		1,092.4

Plant	Country	Installed Capacity (MW)	Hydro	Fuel / Gas	Coal	CCGT	% Economic Share ENDESA	Capacity corresponding to Endesa (MW)
Cachoeira Dourada	Brazil	658.0	658.0				60.74	399.7
Ampla	Brazil	62.3	62.3				55.57	34.6
Fortaleza	Brazil	318.5				318.5	60.98	194.2
TOTAL BRAZIL		1,038.8	720.3			318.5		628.5
El Guavio	Colombia	1,164.0	1,164.0				35.61	414.5
Charquito-Limonar-Tinta-S. Antonio-Tequendama	Colombia	96.10	96.1				35.61	34.2
La Junca	Colombia	19.50	19.5				35.61	6.9
Cadena Pagua (Guaca and Paraiso)	Colombia	601.2	601.2				35.61	214.1
Termozipa	Colombia	235.5			235.5		35.61	83.9
Betania	Colombia	540.9	540.9				31.13	168.4
TOTAL COLOMBIA		2,657.2	2,421.7		235.5			922.0
Ventanilla	Peru	315.3		315.3			43.50	137.2
Piura (Malacas)	Peru	143.0		143.0			48.00	68.6
Huinco	Peru	247.4	247.4				13.78	34.1
Matucana	Peru	128.6	128.6				13.78	17.7
Callahuanca	Peru	75.1	75.1				13.78	10.3
Moyopampa	Peru	64.7	64.7				13.78	8.9
Huampaní	Peru	30.2	30.2				13.78	4.2
Santa Rosa	Peru	229.1		229.1			13.78	31.6
Yanango	Peru	42.6	42.6				13.78	5.9
Chimay	Peru	150.9	150.9				13.78	20.8
Edelnor	Peru	2.3	2.3				38.25	0.9
TOTAL PERU		1,429.0	741.8	687.4				340.2
TOTAL LATIN AMERICA*		14,095.0	8,619.6	2,270.3	537.5	2,667.6		4,572.6

* Atacama´s capacity not included (not consolidated in the Group).

SIGNIFICANT EVENTS IN 2005

01.05



DAY 11 ENDESA sells its stake in the Moroccan company, Lydec, for Euro 26 million. **DAY 19** The Kings of Spain and Morocco inaugurate the Tahaddart CCGT plant in Morocco.

02.05



DAY 1 ENDESA sells ASM Brescia 5.33% of Endesa Italia, bringing its stake in the company to 80%. **DAY 10** ENDESA starts up the Leboreiro wind farm (Lugo) with 21 MW installed capacity. **DAY 16** ENDESA presents its Industrial Plan for French subsidiary, Snet. **DAY 25** ENDESA receives approval for the first Clean Development Mechanism (CDM) project presented in Spain in accordance with the flexibility mechanisms established by the Kyoto Protocol.

03.05



DAY 1 Enersis and Endesa Chile agree to pay a dividend equivalent to 50% of 2004 profits. **DAY 22** ENDESA signs an agreement with Italian company, Merloni, to sell electricity to the retail market.

07.05



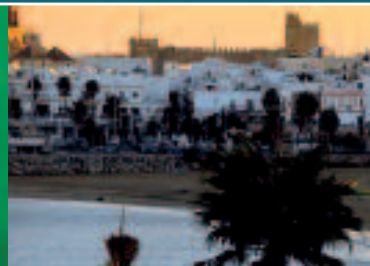
DAY 4 ENDESA joins Nordpool, the most active trading market for emissions rights in Europe. **DAY 11** Endesa Chile, begins construction of the Palmucho (Chile) hydro power plant, which will have installed capacity of 32 MW. **DAY 29** Production begins at the first unit of the As Pontes power plant to be converted to imported coal with installed capacity of 350 MW.

08.05



DAY 11 Endesa Chile, acquires 25% of the San Isidro (Chile) power plant bringing its stake to 100%.

09.05



DAY 5 Gas Natural launches a hostile takeover bid for 100% of ENDESA's capital stock. **DAY 26** ENDESA obtains financing of Euro 600 million from the European Investment Bank to improve its distribution network.

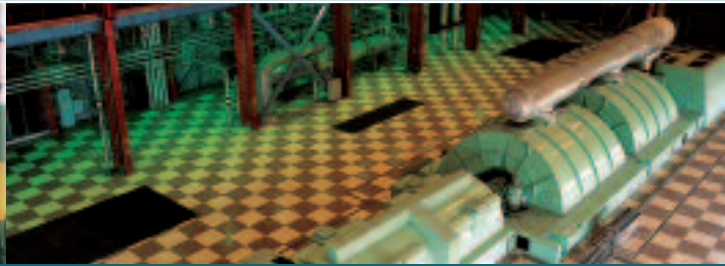
04.05



05.05



06.05

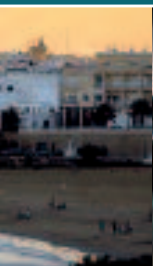


DAY 6 The President of the Canary Island regional government and the Chairman of ENDESA inaugurate the Gran Canaria CCGT power plant. **DAY 7** ENDESA receives the first methane gas ship from Qatar as part of the long term agreement signed with Qatari company, Rasgas. **DAY 12** ENDESA is listed on the prestigious Aspi Eurozone Sustainability Index. **DAY 18** Endesa Chile incorporates Endesa Eco to develop renewable energy projects in Latin America. **DAY 22** ENDESA signs a Euro 2 billion syndicated loan, the largest in the company's history. **DAY 27** Endesa Italia signs an agreement with seven European financial institutions to refinance its debt.

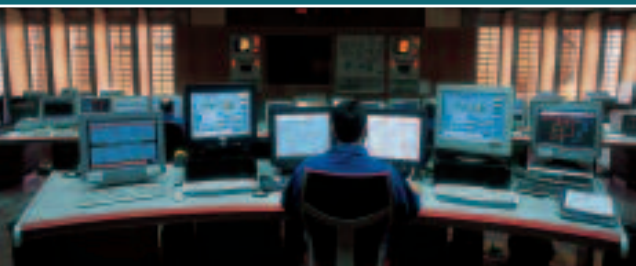
DAY 5 ENDESA joins Green Fuel to promote biodiesel power production in Spain. **DAY 12** ENDESA signs an agreement with Portuguese company FINERGE, the owner of 107MW co-generation and renewable energy capacity. **DAY 19** ENDESA introduces technology at its power plants to cut CO₂ emissions by 300,000 tonnes a year. **DAY 25** ENDESA obtains 31% of the interconnection capacity between Italy and France auctioned by the French operator for June.

DAY 1 The President of the regional government of the Balearic Islands and the Chairman of ENDESA inaugurate the Son Reus II CCGT power plant in Mallorca. **DAY 2** Endesa Chile begins construction of the San Isidro II (Chile) CCGT power plant which will have installed capacity of 377 MW. Etevensa initiates the closure of Etevensa II plant, the second CCGT power plant in Peru. **DAY 15** Through Edesur, ENDESA signs an agreement with the Argentinean government to review the distribution tariffs which had been frozen in January 2002 under the Economic Emergency Law.

10.05



11.05



12.05



DAY 17 The Definitive Agreement is signed with the Argentinean Energy Secretary to manage and operate projects to reconfigure the Wholesale Electricity Market (WEM). **DAY 19** ENDESA obtains 168 GWh of energy from the interconnection between Slovenia and Italy for 2006. **DAY 27** ENDESA creates Endesa Brasil, a holding which will group together all its operating assets in Brazil.

DAY 7 ENDESA signs an agreement with the Chinese company, Huaneng, to acquire emissions reductions from wind farms. **DAY 8** ENDESA sells France Telecom a 27.7% stake in the telecommunications group Auna. **DAY 17** Endesa Gas inaugurates the new Jerez de la Frontera-Puerto de Santa María gas pipeline. **DAY 22** ENDESA's subsidiary Snet invests more than Euro 5 million in environmental improvements at the Provenza power plant. **DAY 24** The President of the autonomous city of Melilla and the Chairman of ENDESA preside over the ceremony to commemorate the 50th anniversary of ENDESA's presence in the city.

DÍA 21 ENDESA sells its 40% stake the generation company CEPM in the Dominican Republic. **DÍA 30** ENDESA sells its remaining 5.01% stake in Auna to Deutsche Bank. **DÍA 31** The Ralco (Chile) hydro power plant celebrates its first anniversary with an output of 3,496 GWh and a 91% availability rate, providing 9.6% of the country's electricity requirements.

ENDESA SINCE ITS CREATION

1944

ENDESA is created on 18 November.

1945/1957

The Compostilla I thermal plant in Ponferrada (León) is built and comes on stream.

1961/1972

The first three units of the Compostilla II fossil fuel plant in Ponferrada (León) are built and come on stream.

1964

The hydroelectric plant at Cornatel (León) comes on stream.

1972

Merger with Hidrogalicia.

Acquisition of the As Pontes (La Coruña) open pit coal mine and the Andorra underground (Teruel) coal mines from Empresa Nacional Calvo Sotelo.

1972/1979

The As Pontes (La Coruña) thermal plant is built and comes on stream.

1976/1980

The Andorra (Teruel) thermal plant is built and comes on stream.

1979/1984

The new groups of the Compostilla II thermal plants are built and come on stream.

1980

The Ceuta and Melilla diesel groups come on stream.

1980/1984

The first groups at the Litoral and Puerto de Carboneras thermal plants (both in Almería) are built and come on stream.

1981

Mining begins at the Corta Alloza open pit coal mine in Andorra (Teruel).

1983

The ENDESA Group is created following the acquisition of the Spanish National Institute of Industry's (INI) holdings in Enher, Gesa, Unelco and Encasur.

1985

The Electricity Asset Swap Agreement is signed with other companies in the sector leading to a significant increase in the Company's installed capacity.

1986

The Ascó II (Tarragona) nuclear power station comes on stream.

Mining begins at the Corta Barrabasa mine in Andorra (Teruel).

1987

The Vandellós II nuclear power plant is connected to the national grid.

1988

Initial Public Offering of ENDESA shares, which reduces the State's holding to 75.6%.

ENDESA's shares are traded for the first time on the New York Stock Exchange.

1990

Completion of the Escatrón fossil-fuel plant (Teruel).

1991

Acquisition of 87.6% of Electra de Viesgo, 40% of Fecsa, 33.5% of Sevillana and 24.9% of Saltos del Nansa.

1992

1992 Acquisition of 61.9% of Carboex.

ENDESA increases its holdings in Fecsa and Nansa to 44.9% and 37.5% respectively.

Elcogas is incorporated to build the first gasification plant integrated into a CCGT unit in Puertollano.

ENDESA acquires its first foreign holdings, acquiring stakes in two Argentinean companies.

1993

1993 Acquisition of a 55% stake in Hidroeléctrica de Cataluña.

Acquisition of a stake in Tejo Energía (Portugal), which owns the Pego thermal plant.

1994

1994 Public Offering of ENDESA shares which sees the State's ownership reduced to 66.89%.

ENDESA takes a stake in Compañía Peruana de Electricidad y de Distrilima at its incorporation.

Acquisition of 11.78% of Sociedad General de Aguas de Barcelona (AGBAR).

1995

1995 Acquisition of 9.7% of Edenor, the Argentinean electricity distributor, and 7.2% of Airtel, Spain's second largest mobile operator.

Enher acquires 100% of Hidroeléctrica de Cataluña.

1996

Increases its stake in Fecsa to 75%.

Increases its stake in Sevillana to 75%.

Signs the Protocol for the new Spanish Electricity System Regulation.

1997

4 x 1-split of ENDESA's shares, with the par value established at Ptas 200 (1.20).

A consortium in which ENDESA participates is awarded the second telephony operating licence (Retevisión).

Public Offering for an additional 25% of ENDESA.

ENDESA acquires 31.9% of the Latin American group Enersis.

1998

Public Offering of an additional 33% of ENDESA's shares.

ENDESA's Corporate Bylaws are amended and a new Board of Directors appointed.

ENDESA makes a capital reduction of 8.19%.



1999

ENDESA completes its corporate consolidation process by incorporating minority shareholders from its Spanish electricity subsidiaries into the shareholder structure of ENDESA, Sociedad Anónima. The merger is approved at the respective General Shareholders' Meetings on 27 April.

ENDESA acquires an additional 32% of Enersis and becomes the controlling shareholder.

ENDESA sells its stake in Airtel.

2000

The telecommunications holding Auna is set up in which ENDESA holds an initial 27.8% stake.

ENDESA acquires Smartcom, a mobile telephony company in Chile.

ENDESA shares are traded for the first time on the Santiago de Chile Off-Shore Stock Exchange.

2001

ENDESA Energía is awarded the licence to supply energy to qualified customers in Germany.

ENDESA agrees to sell its stake in Argentinean distributor, Edenor.

ENDESA acquires 30% of French electricity generator, Snet.

A consortium headed by ENDESA, in which it holds a 45% stake, is awarded the Italian generator Eletrogen (now Endesa Italia).

Viesgo's generation and distribution assets are awarded to the Italian company, Enel, in a controlled tender.

2002

ENDESA acquires an additional 5.7% of Endesa Italia, increasing its stake to 51%.

ENDESA is selected to form part of the Dow Jones Sustainability World Index (DJSI).

ENDESA's first CCGT power plants come on stream: Besós, San Roque and Son Reus

The company captures its first customers in Germany and Belgium and creates Sodesa, a 50/50 joint venture with the Portuguese group Sonae, to sell energy in Portugal.

ENDESA's Customer Ombudsman's Office commences its activities.

2003

Re-powering of Endesa Italia's thermal plants.

ENDESA brings on stream the San Reus II (Balearic Islands) and Gran Canaria (Tenerife) CCGT power plants, converts its Ostiglia (Italy) plant to CCGT and converts groups 3 and 4 of its Fiume Santo (Italy) plant to coal.

ENDESA sells its electricity transmission network to Red Eléctrica, S.A.

ENDESA sells its 3.01% stake in Repsol YPF, 7% of Red Eléctrica, S.A and 100% of Made, a company that manufactures wind generators and solar panels.

ENDESA and ASM Brescia present Ergon Energia, a new 50% joint venture to sell electricity in Italy.

ENDESA's Board of Directors modifies its Regulations and approves the Internal Regulation on Conduct in the Securities Market.

ENDESA relocates the registered offices of Endesa Generación to Seville and Endesa Red to Barcelona.

In December, the Fortaleza power plant in Brazil comes on stream.

2004

ENDESA increases its stake in Endesa Italia to 85%.

ENDESA increases its stake in French generator, Snet, to 65% and assumes the management of the company.

Group 5 of the Tavazzano (Italy) plant is converted to CCGT with 800 MW installed capacity.

Signs agreement with ASM Brescia to acquire 50% of Eurosviluppo Elettrica, a company created to develop an 800 MW cogeneration project in Scandale (Calabria).

Agreements are signed to acquire 91 MW of wind power plant in Sicily, and to incorporate over a period of three years, 200 MW of wind power capacity into Endesa Italia's generation assets.

The Ralco hydro plant in Chile comes on stream with 690 MW of installed capacity.

Construction begins in Ventanilla, Peru, of the country's first CCGT plant, owned by Etevensa.

The 400 MW Tahaddart plant in Morocco, the country's first CCGT plant, in which ENDESA owns 32%, is synchronised to the grid.

ENDESA sells its 11.64% stake in Aguas de Barcelona, as well as its NETCO Redes shareholding and its subsidiaries Senda Ambiental and Enditel.

A new organisational structure, approved by the company's Board of Directors in June, is implemented.

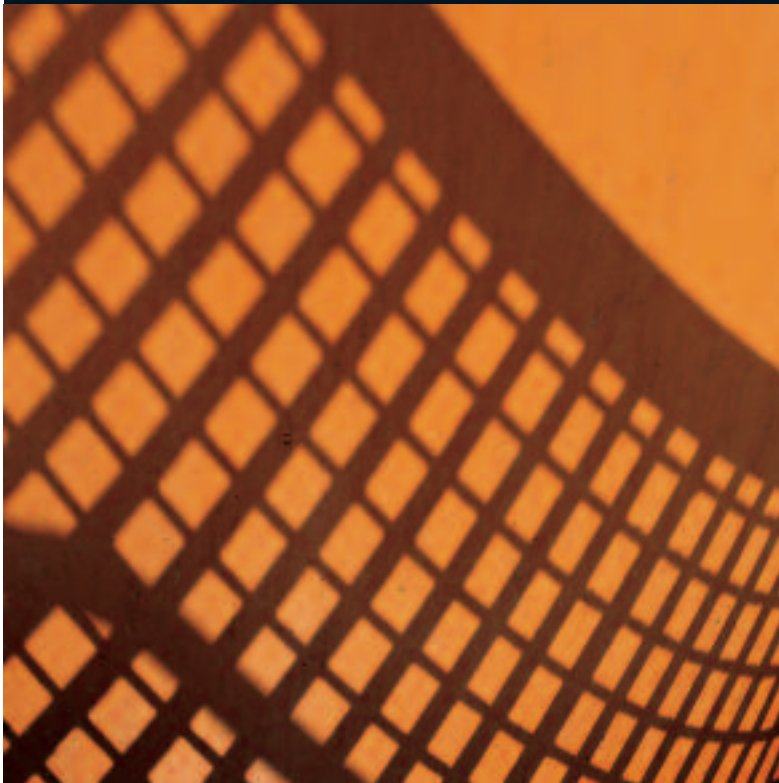
ENDESA becomes the first Spanish company to submit a Clean Development Mechanism project to the Spanish Office for Climate Change in accordance with the flexibility mechanisms created under the Kyoto Protocol: Re-powering of the Callahuanca hydro plant in Peru.





VISION

ENDESA IS AN ENERGY SECTOR OPERATOR AND PROVIDER OF ASSOCIATED SERVICES, FOCUSED ON ELECTRICITY • A MULTINATIONAL COMPANY THAT IS RESPONSIBLE, EFFICIENT AND COMPETITIVE • A COMPANY READY TO COMPETE AT GLOBAL LEVEL.



MISSION

TO MAXIMISE THE VALUE OF ITS SHAREHOLDERS INVESTMENTS • TO SERVE ITS MARKETS AND EXCEED ITS CUSTOMERS' EXPECTATIONS • TO CONTRIBUTE TO THE DEVELOPMENT OF ITS EMPLOYEES

VALUES

PEOPLE: WE WORK TO ENSURE DEVELOPMENT OPPORTUNITIES FOR ALL COMPANY EMPLOYEES, BASED ON MERIT AND THE PROFESSIONAL CONTRIBUTION MADE • TEAM WORK: WE ENCOURAGE INVOLVEMENT TOWARDS ACHIEVING A COMMON GOAL, SHARING INFORMATION AND KNOWLEDGE • ETHICAL CONDUCT: WE ENCOURAGE PROFESSIONALISM, MORAL INTEGRITY, LOYALTY AND RESPECT TO OTHERS • CUSTOMER FOCUS: THE FOCUS OF ENDESA'S EFFORTS IS TO BOOST CUSTOMER SATISFACTION BY PROVIDING COMPETITIVE, HIGH-QUALITY SOLUTIONS • INNOVATION: WE STRIVE CONSTANTLY TO IMPROVE AND FIND INNOVATIVE SOLUTIONS TO MEET THE MAXIMUM PROFITABILITY CRITERIA • FOCUSED ON RESULTS: OUR ACTIVITIES ARE AIMED AT ACHIEVING THE OBJECTIVES OF THE BUSINESS PROJECT AND PROFITABILITY FOR OUR SHAREHOLDERS, ENDEAVOURING TO EXCEED EXPECTATIONS • COMMUNITY AND THE ENVIRONMENT: WE HAVE MADE A SOCIAL AND CULTURAL COMMITMENT TO THE COMMUNITY AND ADAPT OUR BUSINESS STRATEGIES TO PRESERVE THE ENVIRONMENT.

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