

# Endesa Capital Finance, L.L.C.

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

Financial Statements as of and for the  
Years Ended December 31, 2008 and 2007, and  
Independent Auditors' Report

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

**TABLE OF CONTENTS**

---

|   | <b>Page</b> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT  | 1           |
| FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED<br>DECEMBER 31, 2008 AND 2007: |             |
| Balance Sheets  | 2           |
| Statements of Income  | 3           |
| Statements of Securityholders' Equity   | 4           |
| Statements of Cash Flows  | 5           |
| Notes to Financial Statements   | 6-9         |



Deloitte & Touche LLP  
Certified Public Accountants  
200 S. Biscayne Blvd.  
Suite 400  
Miami, FL 33131-2310  
USA  
Tel: +1 305 358 4141  
Fax: +1 305 372 3160  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Securityholders of  
Endesa Capital Finance, L.L.C.  
New York, New York

We have audited the accompanying balance sheets of Endesa Capital Finance, L.L.C. (the "Company") (an indirect wholly owned subsidiary of Endesa, S.A.) as of December 31, 2008 and 2007, and the related statements of income, securityholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 to the financial statements, the Company conducts significant transactions with related parties.

*Deloitte & Touche LLP*

February 18, 2009

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

**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2008 AND 2007**  
**(In Euros)**

|  | <b>2008</b>                   | <b>2007</b>                   |
|--|-------------------------------|-------------------------------|
| <b>ASSETS</b>  |                               |                               |
| CURRENT ASSETS:  |                               |                               |
| Cash   | € 458                         | € 350                         |
| Accrued interest receivable  | 550,828                       | 668,966                       |
| Short-term loan receivable to International Endesa B.V.  | <u>9,601,171</u>              | <u>7,788,911</u>              |
| Total current assets   | 10,152,457                    | 8,458,227                     |
| LOAN TO INTERNATIONAL ENDESA B.V. — Net of unearned loan fees of €47,591,500 and €58,811,500 in 2008 and 2007, respectively  | <u>1,452,408,500</u>          | <u>1,441,188,500</u>          |
| <b>TOTAL</b>   | <u><b>€ 1,462,560,957</b></u> | <u><b>€ 1,449,646,727</b></u> |
| <b>LIABILITIES AND SECURITYHOLDERS' EQUITY</b>   |                               |                               |
| LIABILITIES:   |                               |                               |
| Preferred dividends payable  | € 500,000                     | € 595,625                     |
| Liquidity fee payable  | 16,660                        | 16,661                        |
| Guaranty fee payable   |                               | 16,661                        |
| Accounts payable   | <u>1,527</u>                  | <u>1,444</u>                  |
| Total liabilities  | <u>518,187</u>                | <u>630,391</u>                |
| SECURITYHOLDERS' EQUITY:   |                               |                               |
| Preferred capital securities; noncumulative<br>80,000,000 securities authorized; 60,000,000 securities issued and outstanding as of December 31, 2008 and 2007, authorized liquidation preference of €25 per security with an aggregate initial liquidation preference of €1.5 billion — net of issuance costs of €111,574,581 | 1,388,425,419                 | 1,388,425,419                 |
| Common capital securities; 10 securities authorized, issued and outstanding as of December 31, 2008 and 2007   | 92                            | 92                            |
| Retained earnings  | <u>73,617,259</u>             | <u>60,590,825</u>             |
| Total securityholders' equity  | <u>1,462,042,770</u>          | <u>1,449,016,336</u>          |
| <b>TOTAL</b>   | <u><b>€ 1,462,560,957</b></u> | <u><b>€ 1,449,646,727</b></u> |

See notes to financial statements.

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

**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(In Euros)**

---

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| REVENUES:  |                     |                     |
| Interest income from loan to International Endesa B.V. | € 80,718,125        | € 70,925,625        |
| Loan fee income  | 11,220,000          | 11,220,000          |
| Other interest income                                  | <u>428,541</u>      | <u>277,806</u>      |
| Total revenues   | <u>92,366,666</u>   | <u>82,423,431</u>   |
| OPERATING EXPENSES:                                    |                     |                     |
| Liquidity fees   | 2,999,999           | 2,999,999           |
| Guaranty fees  | 2,983,339           | 2,999,999           |
| Other  | <u>113,769</u>      | <u>119,910</u>      |
| Total operating expenses                               | <u>6,097,107</u>    | <u>6,119,908</u>    |
| NET INCOME   | 86,269,559          | 76,303,523          |
| PREFERRED DIVIDENDS                                    | <u>73,243,125</u>   | <u>63,592,292</u>   |
| NET INCOME ATTRIBUTABLE TO<br>COMMON SECURITYHOLDERS   | <u>€ 13,026,434</u> | <u>€ 12,711,231</u> |

See notes to financial statements.

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

**STATEMENTS OF SECURITYHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(In Euros)**

|                             | <b>Preferred<br/>Capital<br/>Securities</b> | <b>Common<br/>Capital<br/>Securities</b> | <b>Retained<br/>Earnings</b> | <b>Total</b>           |
|-----------------------------|---|--|------------------------------|------------------------|
| BALANCE — December 31, 2006 | € 1,388,425,419                             | € 92                                     | € 47,879,594                 | € 1,436,305,105        |
| Net income                  |   |  | 76,303,523                   | 76,303,523             |
| Preferred dividends         | _____                                       | _____                                    | <u>(63,592,292)</u>          | <u>(63,592,292)</u>    |
| BALANCE — December 31, 2007 | 1,388,425,419                               | 92                                       | 60,590,825                   | 1,449,016,336          |
| Net income                  |   |  | 86,269,559                   | 86,269,559             |
| Preferred dividends         | _____                                       | _____                                    | <u>(73,243,125)</u>          | <u>(73,243,125)</u>    |
| BALANCE — December 31, 2008 | <u>€ 1,388,425,419</u>                      | <u>€ 92</u>                              | <u>€ 73,617,259</u>          | <u>€ 1,462,042,770</u> |

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(In Euros)**

|   | 2008                | 2007                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                     |                     |
| Net income  | € 86,269,559        | € 76,303,523        |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                     |                     |
| Accretion of loan fee income  | (11,220,000)        | (11,220,000)        |
| Changes in operating assets and liabilities:  |                     |                     |
| Decrease (increase) in accrued interest receivable  | 118,138             | (100,088)           |
| Decrease in liquidity fee payable   | (1)                 | (1)                 |
| Decrease in guaranty fee payable  | (16,661)            | (1)                 |
| Increase (decrease) in accounts payable   | <u>83</u>           | <u>(170)</u>        |
| Net cash provided by operating activities   | 75,151,118          | 64,983,263          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES — Increase in short-term loan receivable from International Endesa B.V.</b>           | (1,812,260)         | (1,653,246)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES — Payment of dividends</b>  | <u>(73,338,750)</u> | <u>(63,330,000)</u> |
| <b>INCREASE IN CASH</b>   | 108                 | 17                  |
| <b>CASH — Beginning of year</b>   | <u>350</u>          | <u>333</u>          |
| <b>CASH — End of year</b>   | <u>€ 458</u>        | <u>€ 350</u>        |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES — Accrued and unpaid dividends on preferred capital securities</b> | <u>€ 500,000</u>    | <u>€ 595,625</u>    |

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**  
**(In Euros)**

---

**1. GENERAL**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

*Short-Term Loan Receivable From Parent* — The recorded amount of the loan approximates fair value due to the short-term nature of the loan and the periodic repricing of the loan.

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

*Other Current Liabilities* — The recorded amount of other current liabilities approximates fair value due to their short term nature.

**Income Taxes** — The Company is a partnership for federal income tax purposes. As such, the income tax effects of the results of operations of the Company accrue directly to the owners. Accordingly, the accompanying financial statements do not include any effects for income taxes.

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



**New Accounting Pronouncements** —In September 2006, the Financial Accounting Standards Board (“FASB”) issued Financial Accounting Standard No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB also issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Certain aspects of SFAS 157 were effective as of January 1, 2008 and had no impact on the Company. We do not anticipate that the adoption of the deferred portion of SFAS 157 will have a material impact on the Company’s financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 provides reporting entities an option to report selected financial assets and liabilities at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 also requires additional information to aid financial statement users’ understanding of a reporting entity’s choice to use fair value on its earnings and also requires entities to display the fair value of those affected assets and liabilities in the primary financial statements. SFAS 159 is effective as of the beginning of a reporting entity’s first fiscal year beginning after November 15, 2007. Application of the standard is optional and any impacts are limited to those financial assets and liabilities to which SFAS 159 would be applied. The Company adopted SFAS 159 effective January 1, 2008 and has elected not to measure any of its current eligible financial assets or liabilities at fair value.

### 3. LOAN TO THE PARENT

On March 28, 2003, the Company made a loan of €1.5 billion to the Parent in exchange for a note. The note, which matures on March 28, 2013, bears interest at a rate equal to the three-month European InterBank Offering Rate (“Euribor”) rate plus a margin (0.50%), provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. In January 2009 the note was amended to a margin of 0.30%. Interest shall be due and payable quarterly in arrears on March 28, June 28, September 28, and December 28 commencing June 28, 2003. The effective interest rate of the loan was 5.4% and 4.7% as of December 31, 2008 and 2007, respectively. In connection with this loan, the Company deducted an up-front loan fee of €112,200,000 from the loan amount to be disbursed to the Parent. The Company recognized loan fee income of €11,220,000 representing the amortization of the up-front loan fee for the years ended December 31, 2008 and 2007, respectively. The loan to the Parent is presented net of unamortized up-front fees of €47,591,500 and €58,811,500 as of December 31, 2008 and 2007, respectively.

On March 26, 2003, the Company extended a €10 million short-term credit facility (the “Credit Facility”) to the Parent. The Credit Facility bears interest equal to the average of the three-month and six-month Euribor rates plus a margin (0.10%). The effective interest rate of the credit facility was 4.9% and 3.6% at December 31, 2008 and 2007, respectively. The original maturity date of the credit facility was February 23, 2006, and has been automatically extended on a monthly basis until written notice is provided by either party. At December 31, 2008 and 2007, the Company had a loan receivable of €9,601,171 and €7,788,911, respectively, from the Parent pursuant to the Credit Facility.

#### **4. COMMON CAPITAL SECURITIES**

The Company has issued 10 common capital securities to the Parent. Common capital securities are allocated 100% of the net losses of the Company (in the event such should occur) and all gains and losses resulting from the disposition of assets from the Company. The net profits of the Company are allocated to the preferred capital securities until the amount so allocated equals the amount of preferred capital securities dividends declared for the year. Any net profits in excess of the amount allocated to the preferred capital securities are allocated to the common capital securities.

#### **5. PREFERRED CAPITAL SECURITIES**

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

On March 28, 2003, the Company completed the issuance of 60,000,000 preferred capital securities and received proceeds of €1.5 billion from the issuance. Preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor effective rate, provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. Dividends shall be payable quarterly in arrears on March 28, June 28, September 28, and December 28 of each year. The preferred capital securities shall not be redeemed by the Company prior to March 28, 2013, with the exception of certain tax-related events, as defined in the Amended and Restated Limited Liability Company Agreement of Endesa Capital Finance, L.L.C. (the "Agreement"). In the event the preferred capital securities are not redeemed on March 28, 2013, preferred capital securityholders are entitled to receive dividends at a rate equal to the three-month Euribor rate plus an effective annual rate of 3.75%. All costs related to this transaction were incurred by the Company and have been charged against the proceeds from issuing the securities.

Preferred capital securities possess no voting rights. However, in the event that the Company fails to pay dividends in full on the preferred capital securities (and the guarantor fails to make a corresponding payment under the guarantee) for five consecutive dividend periods, then the holders of the preferred capital securities have the right to alter the composition of the Board of Directors as prescribed in the Agreement.

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

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

The Company may not, without the prior approval of the preferred capital security holders owning not less than 66% of the aggregate liquidation preference of all preferred capital securities then outstanding,

merge or consolidate into another entity unless such successor entity assumes all of the obligations of the Company under the preferred capital securities or replaces the preferred capital securities with other securities that have at least the same participation in the profits or assets of the successor entity as the preferred capital securities have in the Company.

#### **6. LIQUIDITY FEE**

In February 2003, the Company entered into a “Contrato de Liquidez” (the “Liquidity Fee Agreement”) with the underwriters, an unrelated party, of its preferred capital securities offering. Pursuant to the Liquidity Fee Agreement, the Company is committed to pay an annual liquidity fee of 0.2% of the outstanding principal amount of the preferred capital securities. The Company has recorded a liquidity fee expense of €2,999,999 for the years ended December 31, 2008 and 2007, respectively.

#### **7. GUARANTY FEE**

In February 2003, the Company entered into a “Acuerdo de Contragarantía” (the “Guaranty Fee Agreement”) with Endesa, the guarantor of the Company’s preferred capital securities offering and the Company’s ultimate parent company. Pursuant to the Guaranty Fee Agreement, the Company is committed to pay an annual guaranty fee of 0.2% of the outstanding principal amount of the Preferred Capital Securities. In December 2008, the Company entered into a “Contrato de Resolucion de acuerdo de Contragarantía” (the “Guaranty Resolution Agreement”). The Guaranty Resolution Agreement eliminates the guarantee fee payment of 0.2% effective December 28, 2008. The Company has recorded a guaranty fee expense of €2,983,339 and €2,999,999 for the years ended December 31, 2008 and 2007, respectively.

#### **8. RELATED-PARTY TRANSACTIONS**

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

As discussed in Note 3, the Company’s loans to the Parent are related-party transactions.

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

\* \* \* \* \*

**ACTION BY UNANIMOUS WRITTEN CONSENT  
OF THE  
BOARD OF DIRECTORS  
OF  
ENDESA CAPITAL FINANCE, LLC**

11056

The undersigned, being all of the directors of Endesa Capital Finance L.L.C., a Delaware Limited Liability Company (the "Company"), hereby consent to, approve and adopt the following resolution by signing their written consent hereto and order that this written consent be filed with the minutes of the proceedings of the Board of Directors:

RESOLVED, in accordance with provisions of the "Amended and Restated Limited Liability Company Agreement" prepare the audited financial statements of the Company for the fiscal year ended 31 december 2008, in accordance with generally accepted accounting principles.

IN WITNESS WHERE OF, the undersigned have executed this Unanimous Written Consent as of the 12<sup>th</sup> of February 2009.



Mr. Álvaro López-Zaballa

Mr. Francisco Ramírez Millor

## **DECLARACIÓN DE RESPONSABILIDAD**

### **INFORME FINANCIERO ANUAL EJERCICIO 2008**

Los Administradores Mancomunados de Endesa Capital Finance LLC, de conformidad con el Artículo 8 del Real Decreto 1362/2007, declaran que, hasta donde alcanza su conocimiento, las cuentas anuales correspondientes al ejercicio 2008, formuladas con fecha 25 de febrero de 2009 y, elaboradas con arreglo a los principios de contabilidad aplicables, ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de Endesa Capital Finance LLC, y que el informe de gestión incluye un análisis fiel de la evolución y los resultados empresariales y de la posición de Endesa Capital Finance LLC junto con la descripción de los principales riesgos e incertidumbres a que se enfrenta.

|   |  |
|---|--|
| <br><b>D. Francisco Ramírez Millor</b><br><b>Administrador Mancomunado</b> | <br><b>D. Álvaro López-Zaballa</b><br><b>Administrador Mancomunado</b> |
|---|--|

**Madrid, 26 de febrero de 2009**

Madrid, 26 de febrero de 2009

**COMISIÓN NACIONAL  
DEL MERCADO DE VALORES**

C/ Miguel Angel, 11  
28010 Madrid

Muy Sres. Nuestros:

En relación con la Norma 5ª de la Circular 1/2004, de 17 de marzo de 2004, de la Comisión Nacional del Mercado de Valores, y a efectos de dar cumplimiento a lo establecido en la misma, les comunicamos:

1º. Que Endesa Capital Finance, LLC es una sociedad constituida de acuerdo con la Ley de Sociedades de Responsabilidad Limitada del Estado de Delaware de los Estados Unidos de América, con domicilio en Suite 204-F, 850 Library Avenue, Newark, Delaware 19711, controlada en su totalidad, de forma indirecta, por Endesa, S.A. a través de la sociedad internacional Endesa, BV.

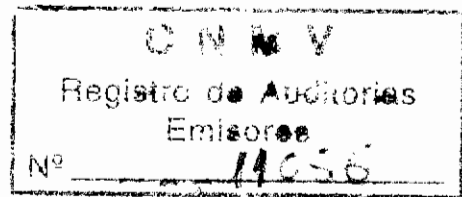
2º. Que de acuerdo con lo establecido en la citada Circular, Endesa Capital Finance, LLC justifica mediante la presente comunicación la no elaboración del Informe Anual de Gobierno Corporativo, y se remite al Informe Anual de Gobierno Corporativo del ejercicio 2008 de su sociedad dominante, Endesa, S.A., que fue aprobado por su Consejo de Administración el 20 de febrero de 2009, y remitido como Hecho Relevante a esa Comisión Nacional del Mercado de Valores con fecha 26 de febrero de 2009.

Atentamente,

---

D. Alvaro López-Zaballa Ruiz  
Endesa Capital Finance, LLC

D. Francisco Ramírez Millor  
Endesa Capital Finance, LLC



**endesa** Capital Finance, L.L.C.

## Management Report 2008

## **1. General Comments**

Endesa Capital Finance, L.L.C. (the "Company") was formed under the laws of the State of Delaware on February 21, 2003. The Company is a wholly owned subsidiary of International Endesa B.V. (the "Parent") which, in turn, is a wholly owned subsidiary of Endesa, S.A. ("Endesa"). Endesa is a Spanish corporation that is involved in the generation, transmission, marketing, and distribution of electricity in Spain, Europe, and Latin America.

The Company was established for the purpose of issuing preferred capital securities and common capital securities and to use substantially all of the proceeds thereof to enter into loan agreements with the Parent or other non-U.S. affiliates of Endesa.

**Loan to the Parent:** On March 28, 2003, the Company made a loan of €1.5 billion to the Parent in exchange for a note. The note, which matures on March 28, 2013, bears interest at a rate equal to the three-month European InterBank Offering Rate ("Euribor") rate plus a margin (0.30%), provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. Interest shall be due and payable quarterly in arrears on March 28, June 28, September 28, and December 28 commencing June 28, 2003. In connection with this loan, the Company deducted an up-front loan fee of €112,200,000 from the loan amount to be disbursed to the Parent. Also on March 26, 2003, the Company extended a €10 million short-term credit facility (the "Credit Facility") to the Parent. The Credit Facility bears interest equal to the average of the three-month and six-month Euribor rates plus a margin (0.10%).

**Preferred capital securities:** On March 28, 2003, the Company completed the issuance of 60,000,000 preferred capital securities and received proceeds of €1.5 billion from the issuance. Preferred capital security holders are entitled to receive dividends at a rate equal to the three-month Euribor effective rate, provided, however, that the three-month Euribor effective rate shall in no event be less than 4.00% or more than 7.00%. Dividends shall be payable quarterly in arrears on March 28, June 28, September 28, and December 28 of each year. The preferred capital securities shall not be redeemed by the Company prior to March 28, 2013, with the exception of certain tax-related events, as defined in the Amended and Restated Limited Liability Company Agreement of Endesa Capital Finance, L.L.C. (the "Agreement"). In the event the preferred capital securities are not redeemed on March 28, 2013, preferred capital security holders are entitled to receive dividends at a rate equal to the three-month Euribor rate plus an effective annual rate of 3.75%. All costs related to this transaction were incurred by the Company and have been charged against the proceeds from issuing the securities.

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



Guaranty fee: In February 2003, the Company entered into a “Acuerdo de Contragarantía” (the “Guaranty Fee Agreement”) with Endesa, the guarantor of the Company’s preferred capital securities offering and the Company’s ultimate parent company. Pursuant to the Guaranty Fee Agreement, the Company is committed to pay an annual guaranty fee of 0.2% of the outstanding principal amount of the Preferred Capital Securities. On December 28, 2008, pursuant to a “Contrato de Resolucion de Acuerdo de Contragarantía” this fee was eliminated.

The Company is filing with the CNMV its financial statements, in conformity with accounting principles generally accepted in the United States of America, for the year ended December 31, 2008.

## **2. Operating Results**

The net income attributable to common security holders for the year ended December 31, 2008 reached €13,026,434, which was in line with the previous year.

The balance sheet maintains a similar structure to that at the end of 2007.

## **3. Main Activities during 2008**

No new preferred capital securities were issued during 2008.

Holders of preferred capital securities were paid dividends of €73,338,750 during 2008.

The Company paid approximately €3 million as a liquidity fee.

The Company paid approximately €3 million as a guaranty fee.

During 2008, the Company continued to grant loans to the Parent. As of December 31, 2008, the outstanding loan amount reached €1,452,408,500 as a long term loan and €9,601,171 as a short-term credit facility. The Company maintains a loan to the Parent in the amount of €1,500,000,000.

At December 28, 2008 the commitment to pay guarantee fee of 0.2% of the outstanding principal amount of the Preferred Capital Securities was removed while the loan to the Parent bears interest at a rate equal to the three-month European InterBank Offering Rate (“Euribor”) rate plus a new margin (0.30%) instead of the prior margin (0.50%). As a result these changes will did not change the financial situation or solvency of the Company.

## **4. Financial Risk Management**

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

## **5. Future Outlook**

No significant changes are expected in the foreseeable future. Activities of the Company are expected to be those related to the borrowing and lending of funds.

Madrid February 26, 2008

---

Francisco Ramírez Millor  
Endesa Capital Finance L.L.C.

Álvaro López-Zaballa Ruiz  
Endesa Capital Finance L.L.C.