



# **Endesa 2001**

## **Focus: Core & Value**

**Analyst presentation  
Madrid, 27 february 2002**



1. Review of Year 2001 Results

2. Strategy Overview

3. Conclusions



1. Review of Year 2001 Results

2. Strategy Overview

3. Conclusions

# Year 2001 At a Glance



- 7.1% growth in EBIT pro-forma
- 5.1% increase in net income to Eur 1.50 Bn after Eur 84 M impact from Argentinean devaluation
- Spanish electricity business (\*):
  - EBIT: +6.3%. Q4: +30.2%
  - Generation + supply EBIT up 4%. Distribution EBIT +9.9% despite tariff reduction due to strong reduction in controllable costs in Q4
  - Cost control: workforce reduction of 10.2% exceeding business plan
- Europe:
  - Strong progress in integration of Endesa Italia performing better than expected. Net Income amount to Eur 28 M in Q4.

(\* ) pro-forma 2000 taking into account the CTCs accounting changes

# Year 2001 At a Glance



- Latin American electricity business:
  - EBIT: +9.3% (+14.9% ex-Transelec in 2000). Q4 EBIT: +18.8%. Despite currency devaluation throughout the year
  - Favourable outcome of negotiations on regulation in Brazil
  - Cost control: workforce reduction of 5%, better than initial target
- Telecoms:
  - Eur 129 M positive EBITDA in AUNA in year 2001, exceeding target
  - 43% growth in customer portfolio for AUNA
  - Smartcom: Customers increased by 124%, above target

# Financial Highlights for 2001



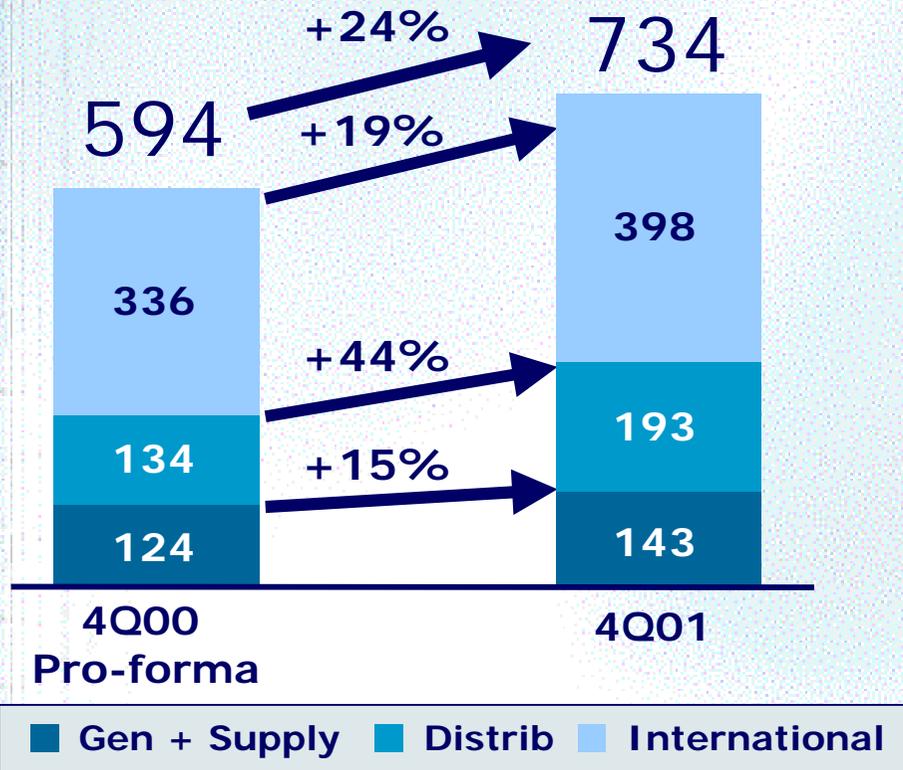
*Euro million*

<b>CONSOLIDATED RESULTS</b>	<b>FY 2001</b>	<b>FY 2000</b>	<b>Change (%)</b>
Revenues	16,085	15,682	+2.6%
EBITDA Pro-forma (1)	5,004	4,799	+4.3%
EBIT Pro-forma (1)	3,175	2,966	+7.1%
Net Income	1,479	1,407	+5.1%
EPS	1.40	1.33	+5.1%
DPS	0.6825	0.6500	+5.0%
Employees year end	26,889	29,062	-7.5%

<b>BREAKDOWN BY LINE OF BUSINESS</b>	<b>DOMESTIC ELECTR.</b>	<b>INTERNAT. ELECTR.</b>	<b>TELECOM &amp; OTHERS</b>
Sales	10,086	5,125	365
EBIT	1,799	1,423	-47
Ordinary Income	1,190	237	-381
Net Income	1,091	489	-101

(1) Pro-forma = 2000 taking into account the CTCs accounting changes

# Strong operating performance in 4Q 2001



- Domestic EBIT +30% pro-forma, despite reversal of island compensation in 4Q
  - Distribution EBIT + 44% growth due to strong cost reduction
  - Generation + supply EBIT +15%
- International EBIT +19%, despite recession, helped by Eur 140 M compensations in Brazil

• Lower volatility in operating profit despite changing in hydro conditions

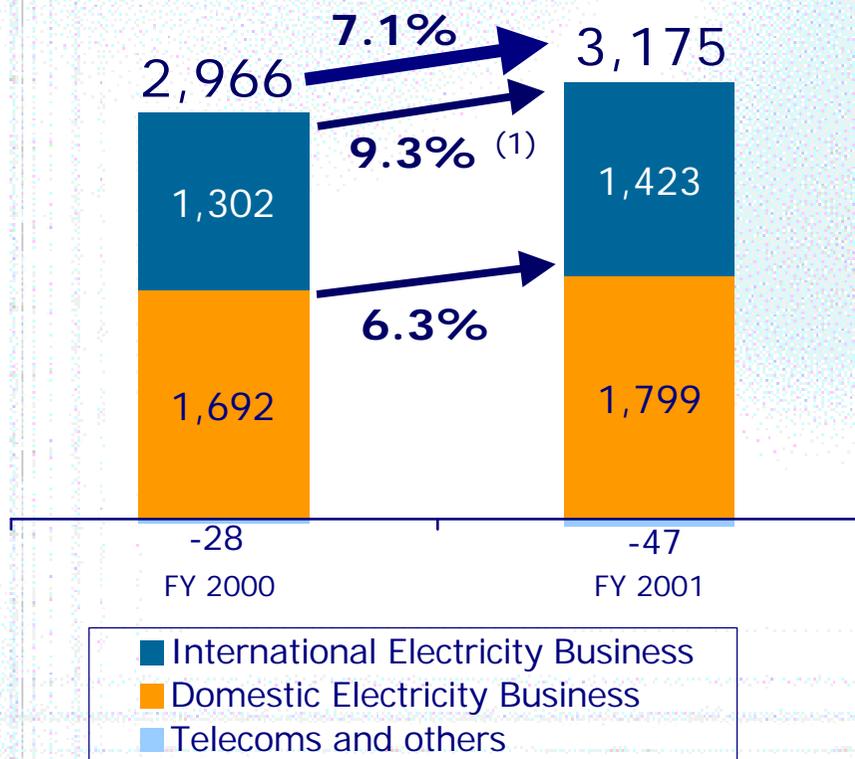
# Consolidated EBIT 2001



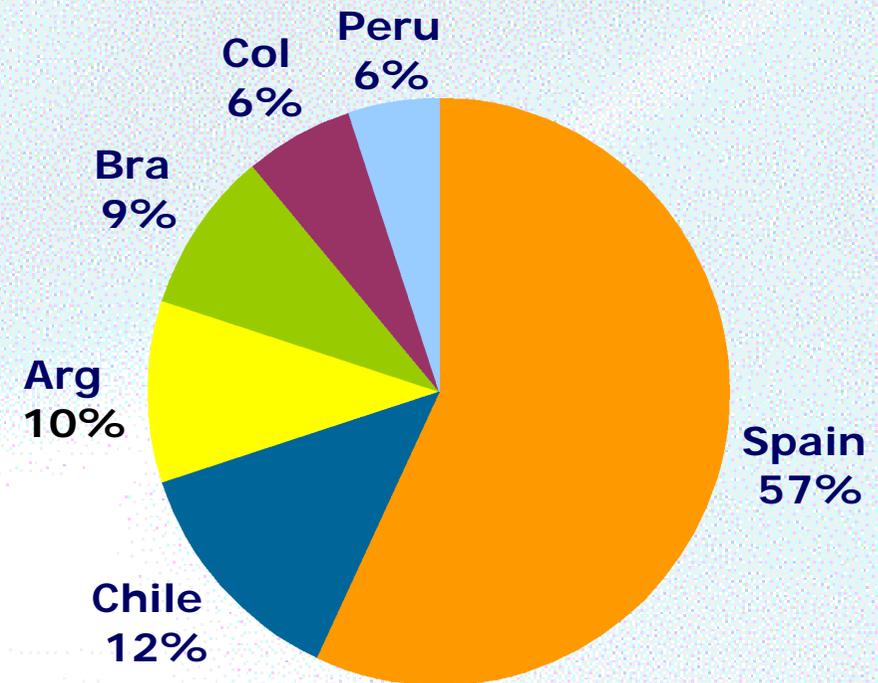
- 7.1% growth at operating level - despite difficult environment in Spain and Latin America
- Domestic EBIT represents 77% of total EBIT on proportional consolidation

**BREAKDOWN OF EBIT BY DIVISION (1)**

Euro Million



**BREAKDOWN OF EBIT BY COUNTRY (%)**



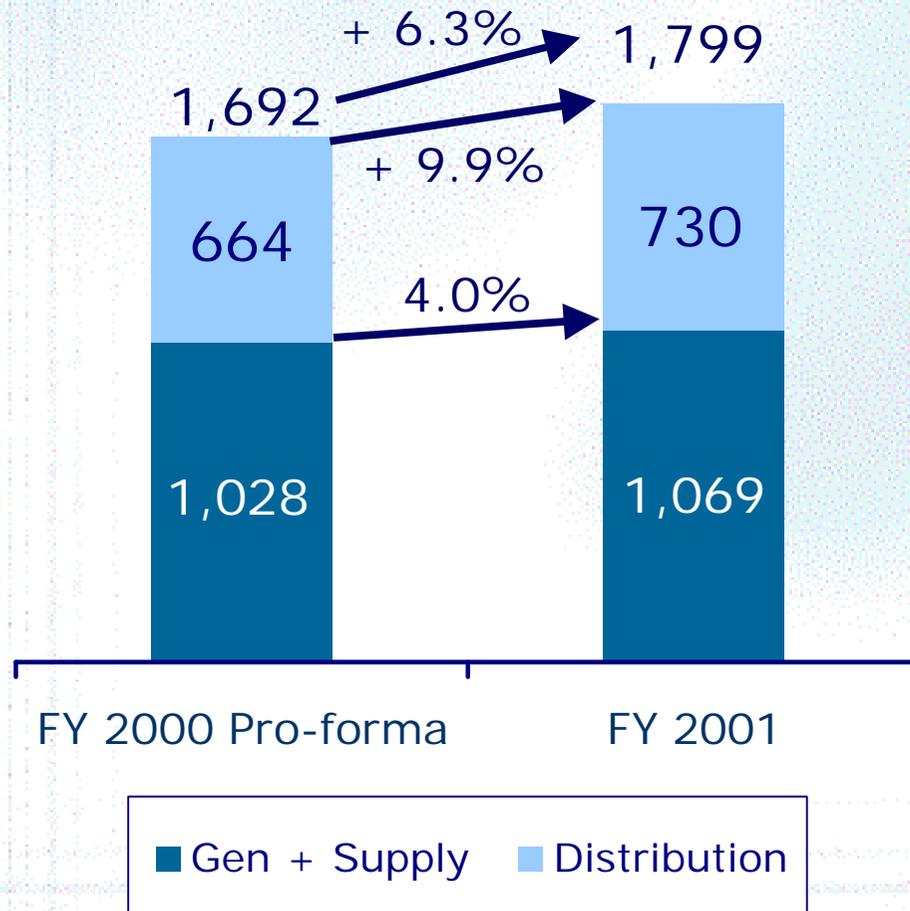
(1) Excluding Transelec in 2000 International EBIT + 14.9% and consolidated EBIT +10.8%

# Domestic Business EBIT 2001



## DOMESTIC EBIT BREAKDOWN

Euro Million



- Despite lower tariff, distribution EBIT increased by 9.9% supported by strong cost reduction in Q4 of Eur 61 M
- Generation & Supply EBIT increased by 4% affected by:
  - higher average generation price
  - flat output
  - lower CTCs
  - higher prices to eligible customers
  - Lower fuel prices

# Domestic Electricity Controllable Cost Reduction 2001



- Headcount -10.2% to 15,027, surpassing 2001 target.
- Reduction in Q4: 2.7%

- Controllable cost decreased by 3.2%, in line with the 2001 target
- -10.6% reduction in Q4



(\*) Including Viesgo

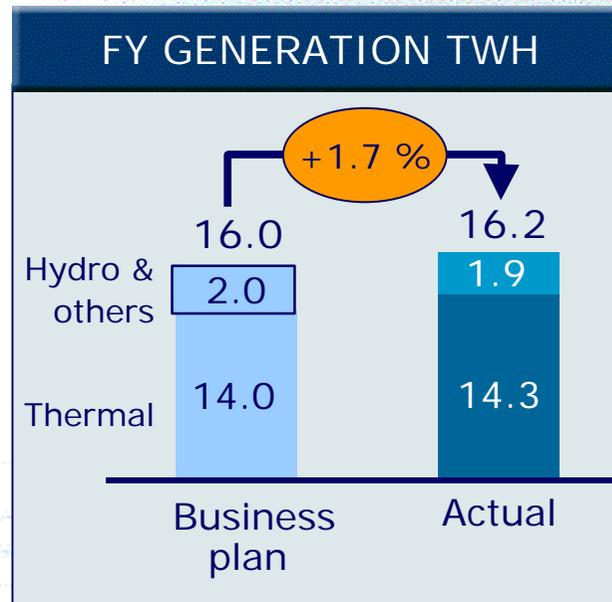
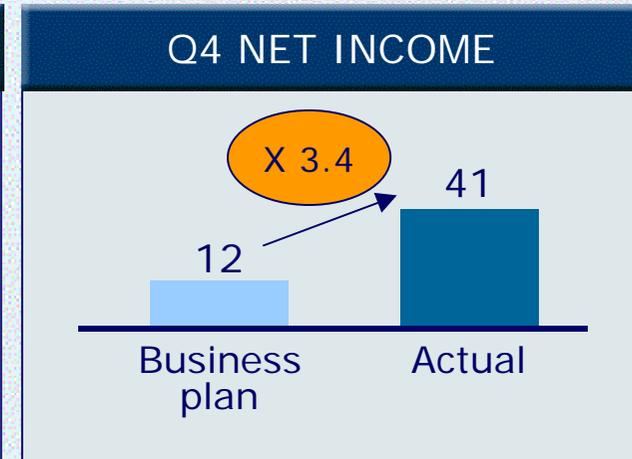
# Endesa Italia 2001:



## Successful performance since takeover

Takeover  
20 Sep-31 Dec

Exceeding  
business plan



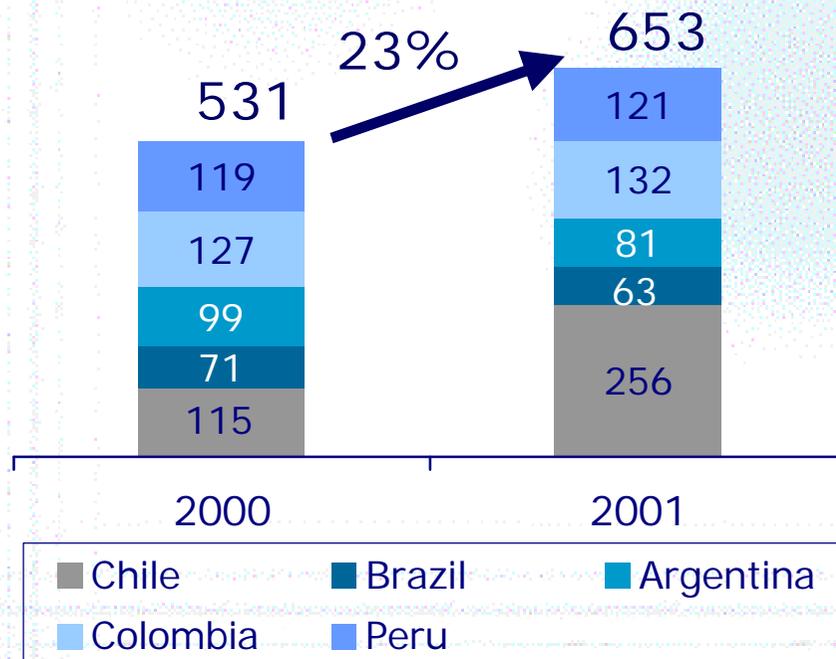
# Latin America: EBIT Breakdown 2001



- Difficult environment: devaluation, economic recession, Argentinean crisis and rationing in Brazil
- Generation EBIT +23%. Higher prices and hydro output, cost cutting
- Distribution: EBIT +14%. Cost cutting+compensation Brazil (Eur 160 M)
- Genesis plan continues to deliver efficiency gains .

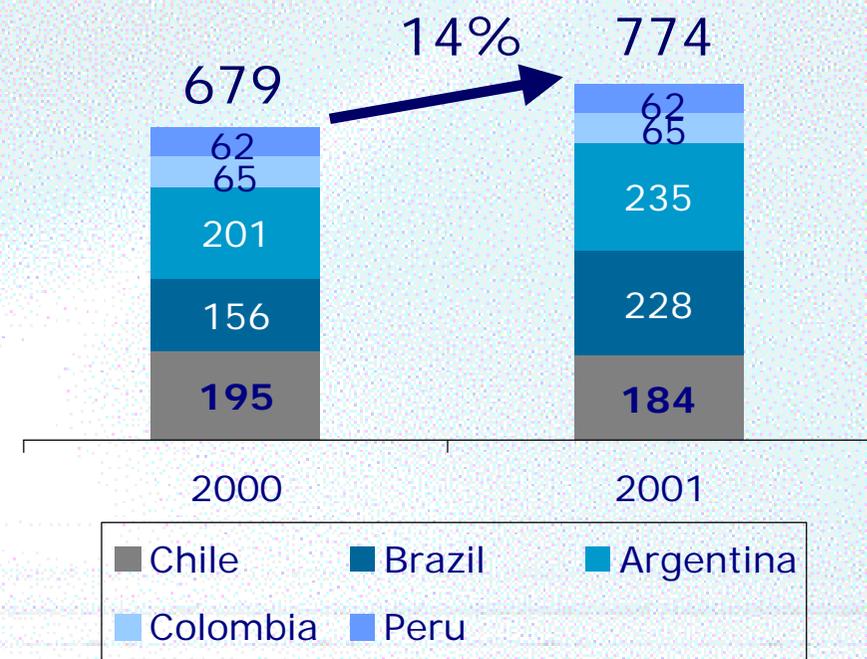
## EBIT – GENERATION

Euro Million



## EBIT – DISTRIBUTION (1)

Euro Million



(1) 2000 excludes EBIT from Transelec

# Impact of Argentinean devaluation in 2001



January 2002 devaluation accounted for in 2001 at 1 US\$ = 1.7 AR\$

Impact of Argentinean Peso devaluation in year 2001 figures

In Net Income → Eur (84) M

In Reserves → Eur (356) M

## Exposure to Argentina Dec. '01

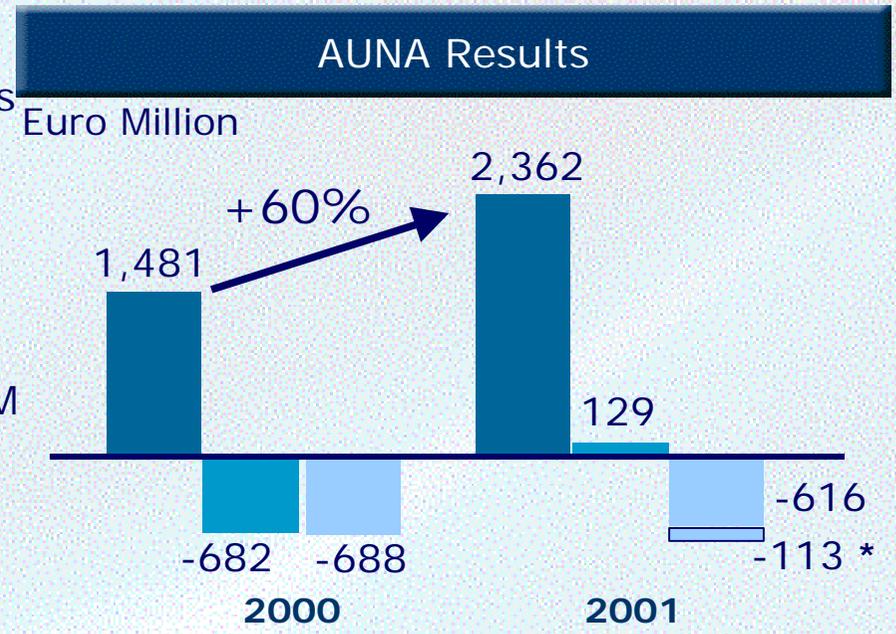
Assets *	1,407	2.8%
EBIT *	102	5.5%
Net Income	54	5.2%
US\$ debt Argentinean Co. With 3rd parties	746	2.0%

\* proportionally consolidated

# Telecommunications: Financial Performance in 2001



- AUNA:
  - AUNA reached Eur 129 Mn EBITDA, Eur 811 Mn increase from 2000, exceeding its business plan.
  - Customers: 10 Million, 43% higher
- SmartCom:
  - Revenues up by 69% to Eur 113 M
  - EBITDA increased by 50% to Euro - 28 M
  - Clients: 609,000, increased by 124% in 2001



## AUNA 2001 EBITDA Breakdown



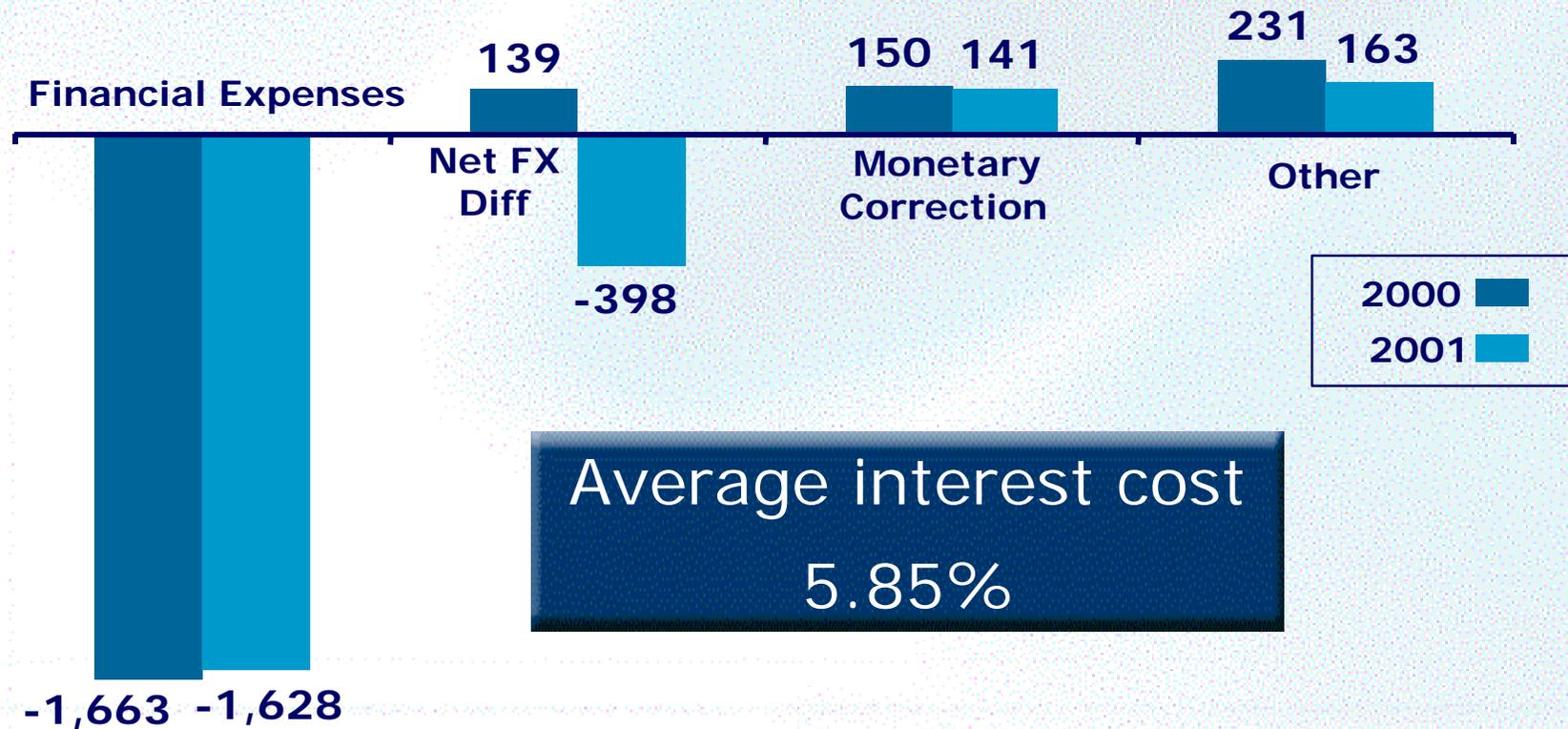
■ Revenues ■ EBITDA ■ Net income

(\* )After Eur 113 M charge for Quiero TV

# Evolution of Financial Result 2001



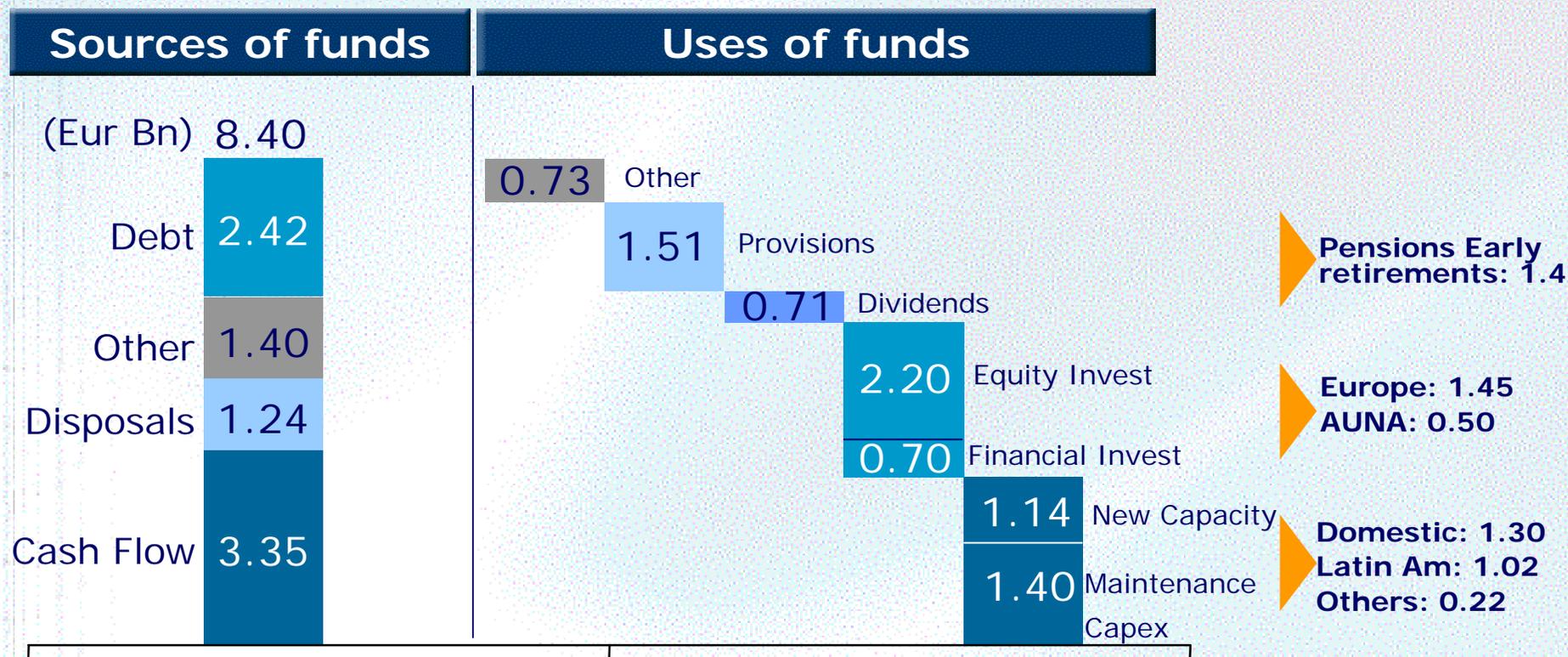
- Financial expenses -2%
- Unrealised FX losses Eur 674 M , 39% from Argentina





- Extraordinary results
- Total net extraordinary results amounted to Eur 579 M
  - International Eur 435 M profit from Eur 494 M gain from Edenor disposal. Eur 114 M provision in CERJ
  - Domestic Eur 151 M profit: Eur 152 M gain from the sale of 12.5% of Viesgo
- Taxes
- Effective tax rate of 5.4%:
  - Domestic benefits from new tax treatment of capital gain
  - International: Edenor disposal capital gain is tax free
- Underlying tax rate 27.2%

# Cash Flow and investments in 2001



- Cash Flow > maintenance Capex + Dividends
- Debt amounted to Eur 25.0 Bn. Debt reduced in January 2002 by Eur 1.9 Bn after Viesgo sale has been completed
- Domestic capex include Eur 555 M for new capacity (CCGTs)

# 2001 results: conclusions



- Operating growth in all lines of business in 2001
- Strong operating performance in 4Q in Spain and Lat.America.
- Positive regulatory outcome in Brazil in 4Q
- Continued cost reduction throughout 2001
- Endesa Italia outperforms expectations
- AUNA full year EBITDA positive since May

- Lower volatility despite change in hydro conditions
- Drivers for strong performance in 4Q remain in 2002



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# Key elements for Strategy



## Achieved targeted size

excellent & competitive  
asset base

## Our priorities

- Profitability
- Strengthen balance sheet

**Focus on Core & Value**

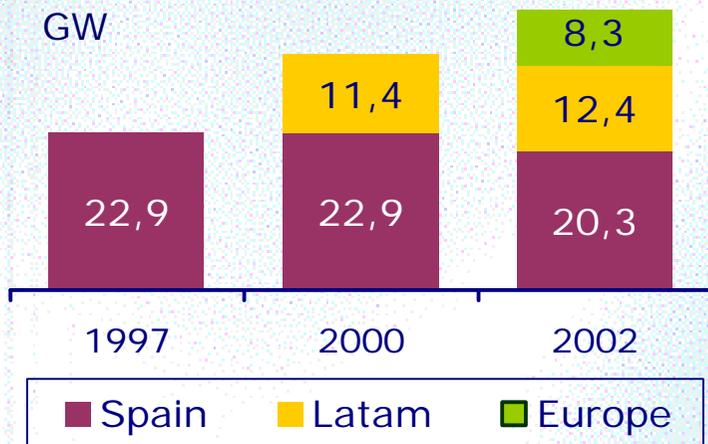
Strong organic  
growth

High potential  
for  
improvements

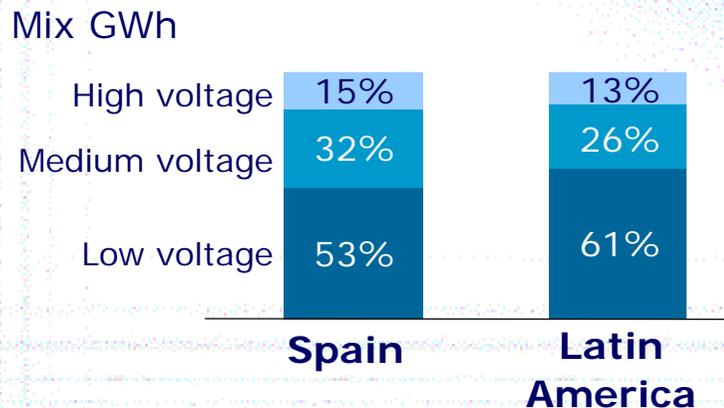
# Endesa has reached a solid and well balanced business platform...



## Installed Capacity Mix 2002

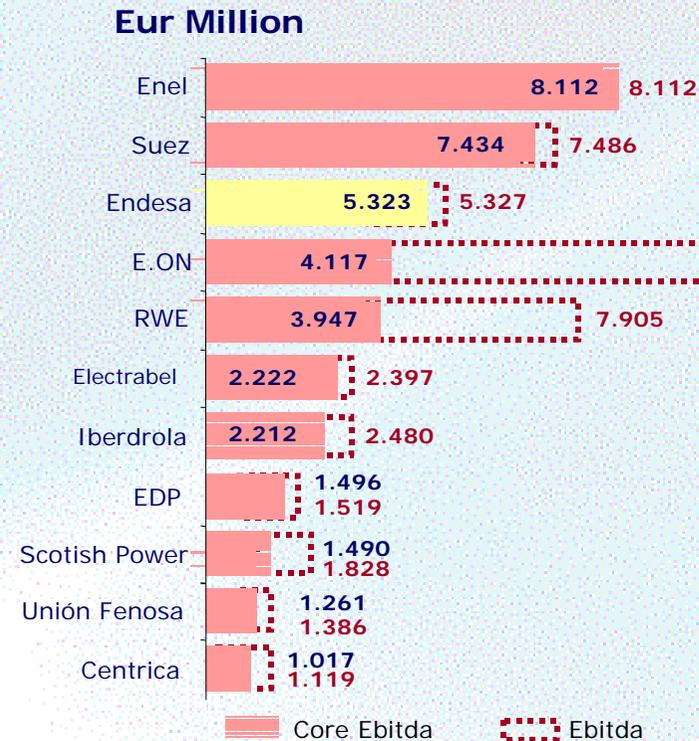


## Customers: 20\*\* Million



\*\* Excluding Viesgo

## EBITDA Year 2001e



... in markets with solid organic growth...



### Customers (Million)

#### Spain



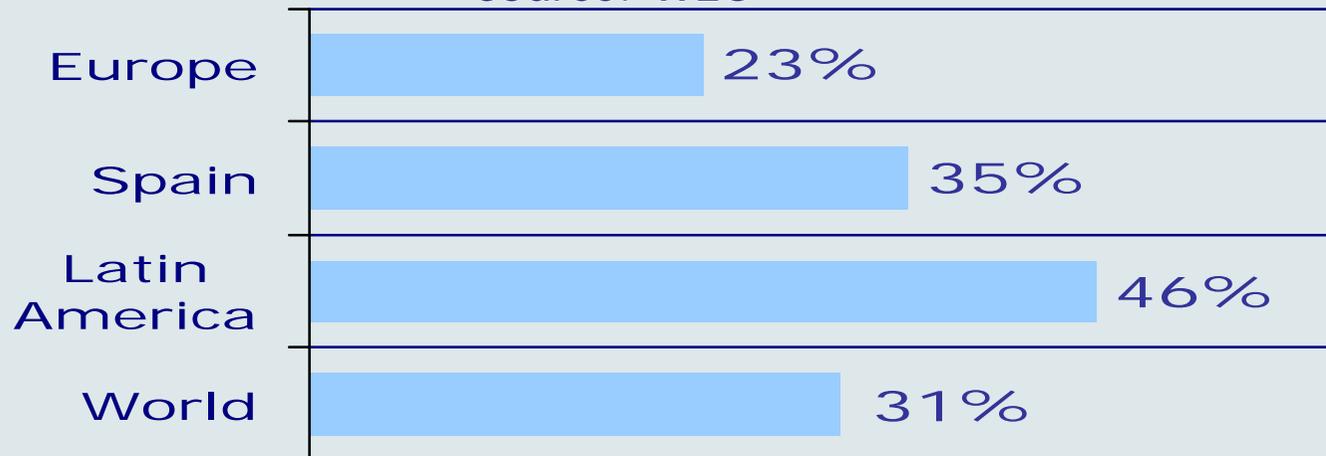
#### Latin America



\* Excluding Viesgo

### Expected Accumulated growth in Demand 2001-2010

source: WEO

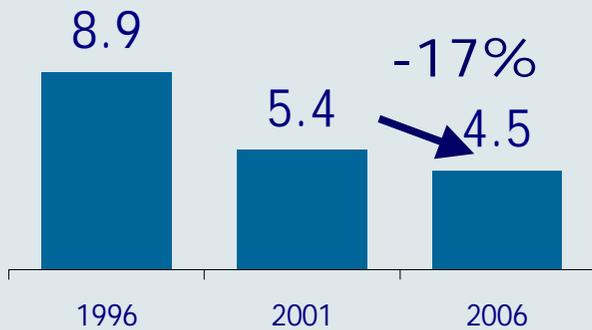


...with a high potential for improvements

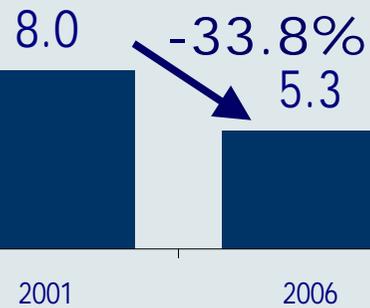


### GENERATION

O&M (Eur/MWh)



Spain



Europe

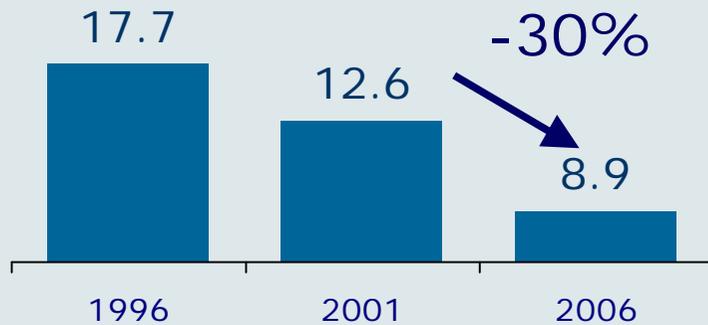
O&M (US\$/MWh)



Latin America

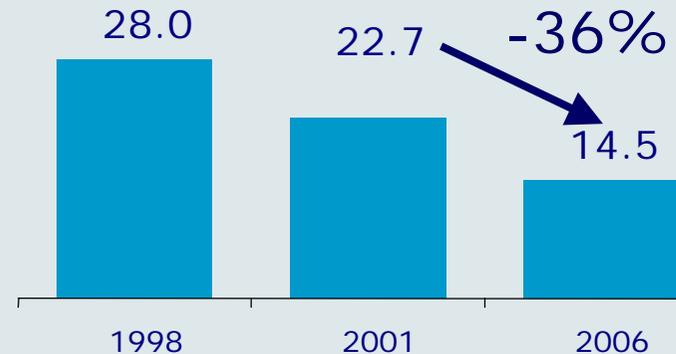
### DISTRIBUTION

O&M + capex (Eur/MWh)



Spain

O&M + capex (US\$/MWh)



Latin America

A focused strategy to maximize the value of our core business



**1. Profitability**

**4. Strengthen  
balance sheet**

**2. Portfolio  
management**

**Core  
&  
Value**

**3. Expansion based  
on  
organic growth**

A focused strategy to maximize the value of our core business



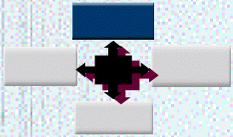
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Extracting value through efficiency & growth

## "ENERGY: Our core business"

### Spain

- Reinforce leadership
- Cost reduction plan
- Optimise asset portfolio new capacity
- GAS: credible & largest competitor
- Cross selling

### Europe

- Consolidate current business
- Achieve Business Plan
- Organic growth & repowering
- supply and management of portfolio assets

### Latin America

- Consolidate current Business
- Strong organic growth
- Genesis: cost-cutting plan
- Proactive management regulation offsetting country risk

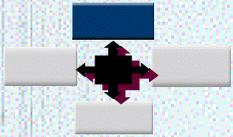
### Other businesses

Extract value

Telecom

New Tech&services

Add value



Extracting value through efficiency & growth

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# Spain an attractive market: Strong demand has tightened reserve margin

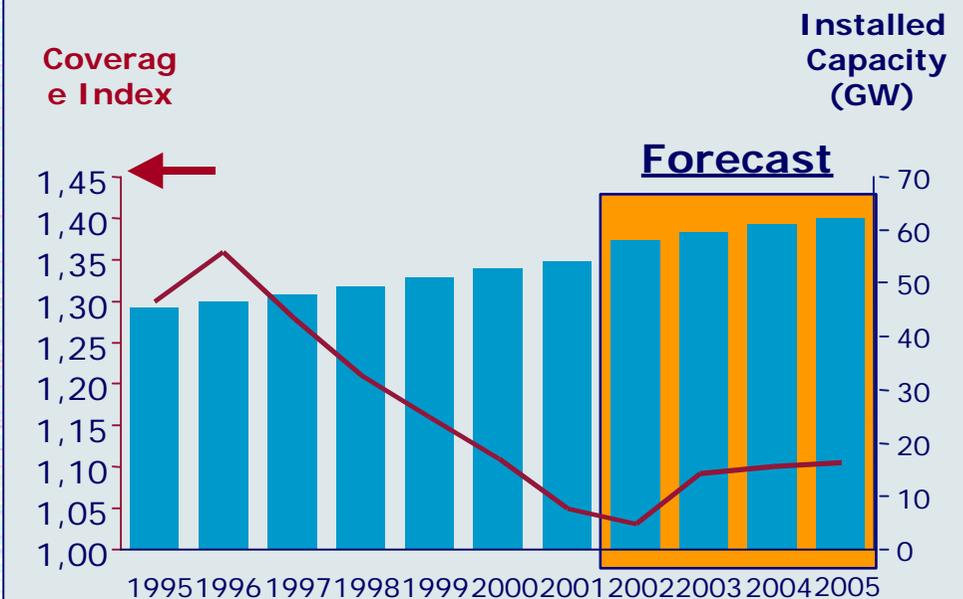


## Annual demand increase

Percent



## Expected evolution of reserve margin \*



\* REE's forecast

5-year demand growth has tripled EU average, dramatically reducing the reserve margin.

YoY demand January 2002 = + 6%

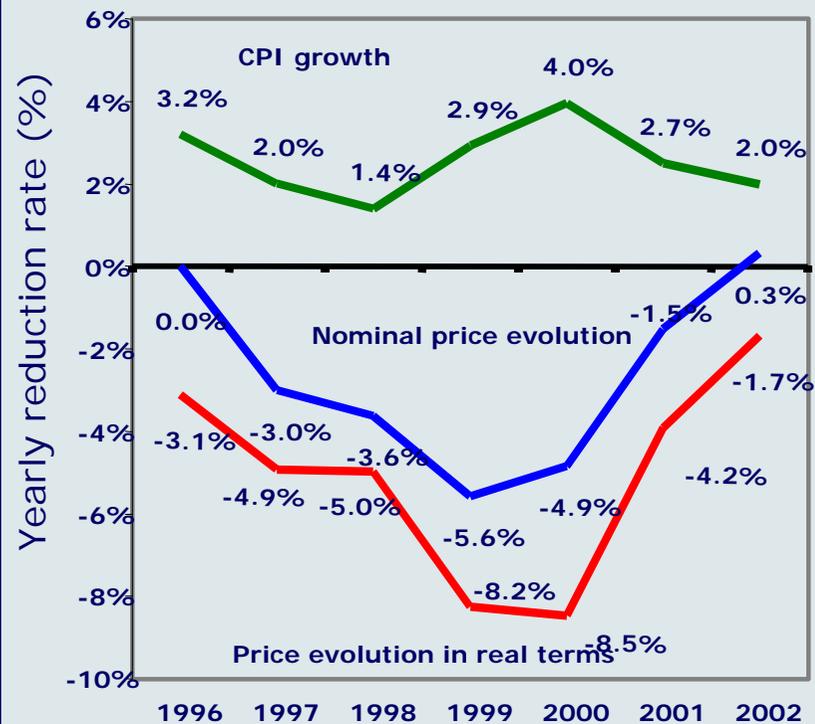
Reserve margin expected to remain below 10%

# Tariff reductions in Spain have placed them amongst the lowest in Europe

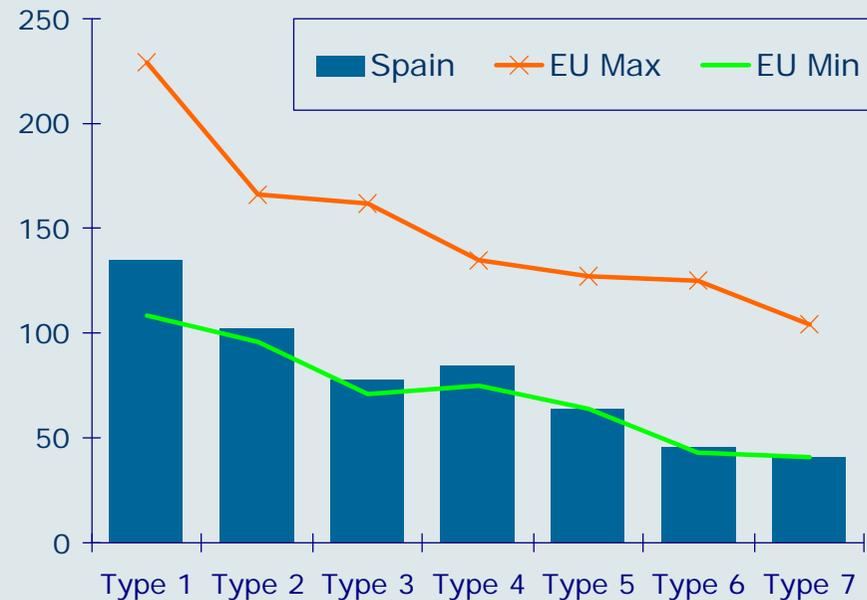


## Annual tariff reduction

Percent



## Electricity prices for different customer categories in 2001 (Index = 100)



Source: European Electricity Prices Observatory

In the last 6 years, electricity prices have declined by 31% in real terms. However, the tariff has increased in 2002 for the first time since 1996

# Recent Regulation Shows Some Positive Signals



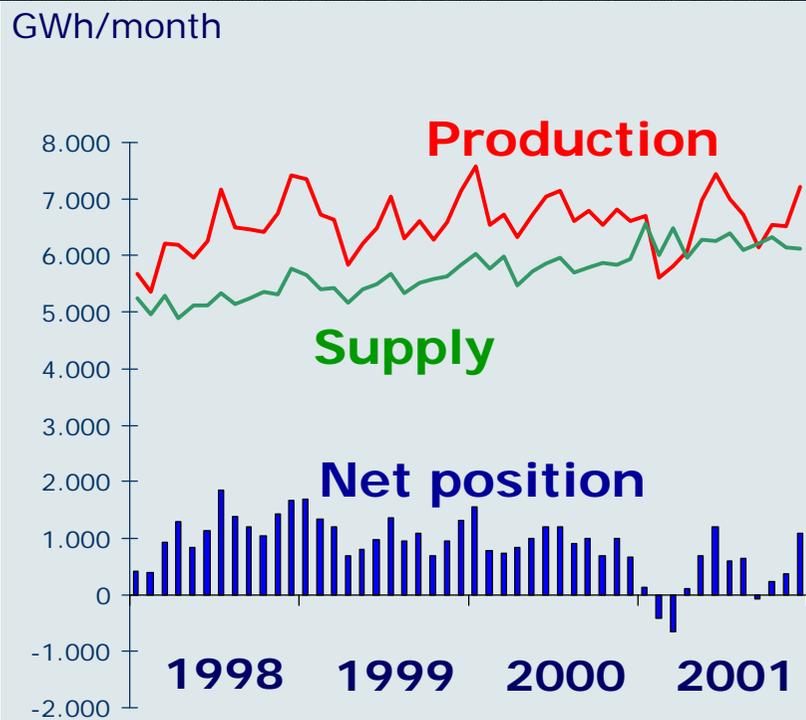
- Highlights of the 2002 tariff:
  - First increase in tariffs in 6 years
  - New methodology defined for TPA\* tariffs
  - Compensation for extrapeninsular generation increased by 55%
- Pending regulatory issues:
  - Objective calculation methodology for integrated tariffs
  - Regulation of the remuneration of islands activities
  - Distribution model

\* TPA= Third Party Access

# Optimizing asset portfolio: Hedge volatility in the market



## Balanced market position



## Volatility in the wholesale market



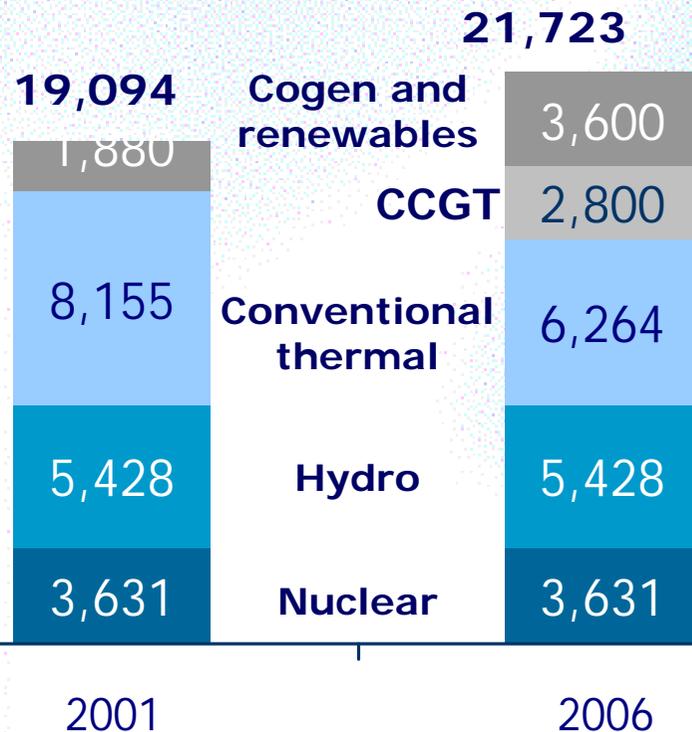
The balanced position in the market is a natural hedge against increasing prices and increased volatility in the wholesale market

# Optimizing asset portfolio: Well-balanced generation mix



## Diversified Generation mix\*

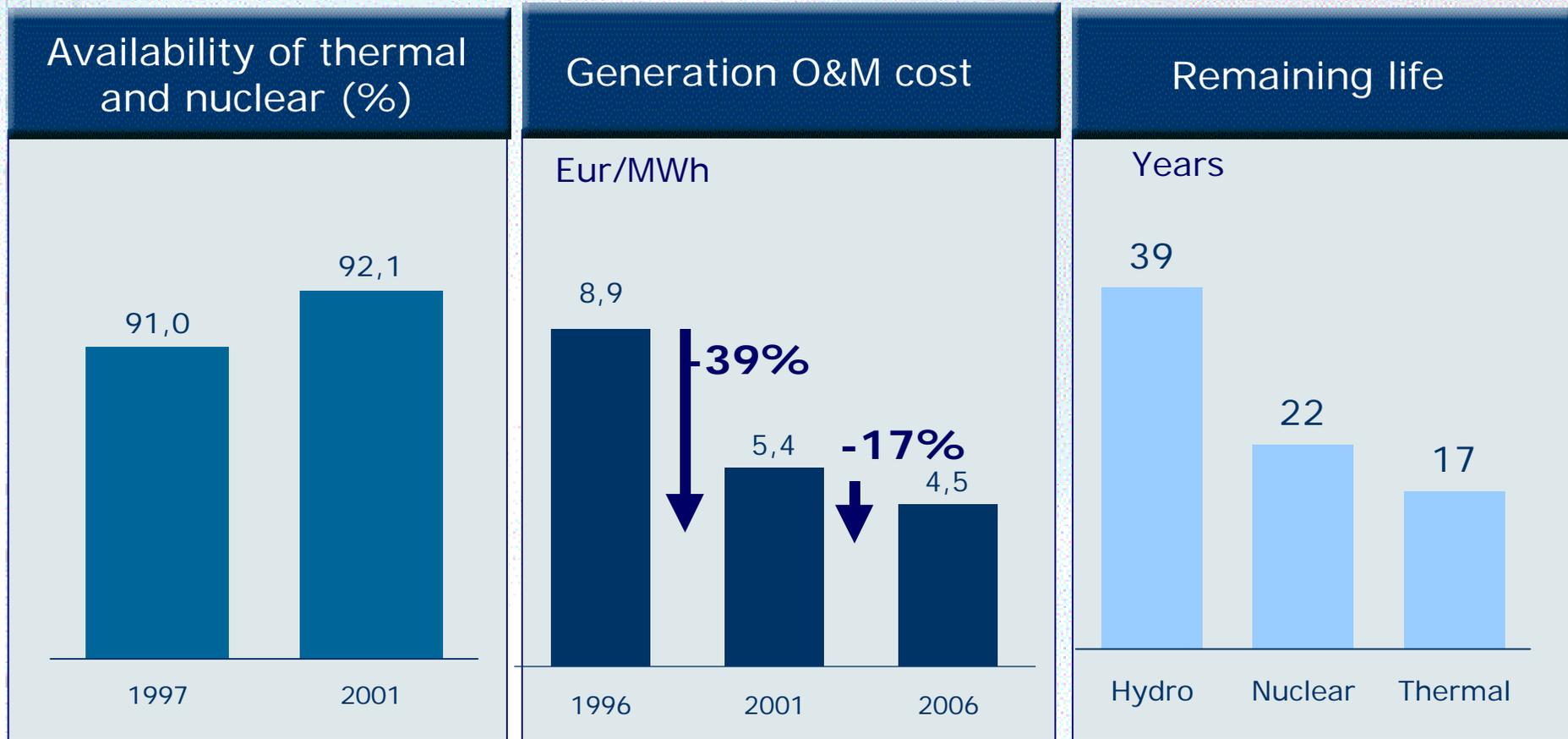
MW



- Strong low-cost generation (hydro & nuclear):
  - Same size as main competitor in base-load generation
  - Hydro production less volatile than average
- Flexible and competitive thermal generation:
  - Strong mid-merit position
  - Natural hedge against variable hydro conditions
- CCGTs will add diversification and flexibility to the portfolio

\* Mainland

# Optimizing asset portfolio: Efficient existing generation plan

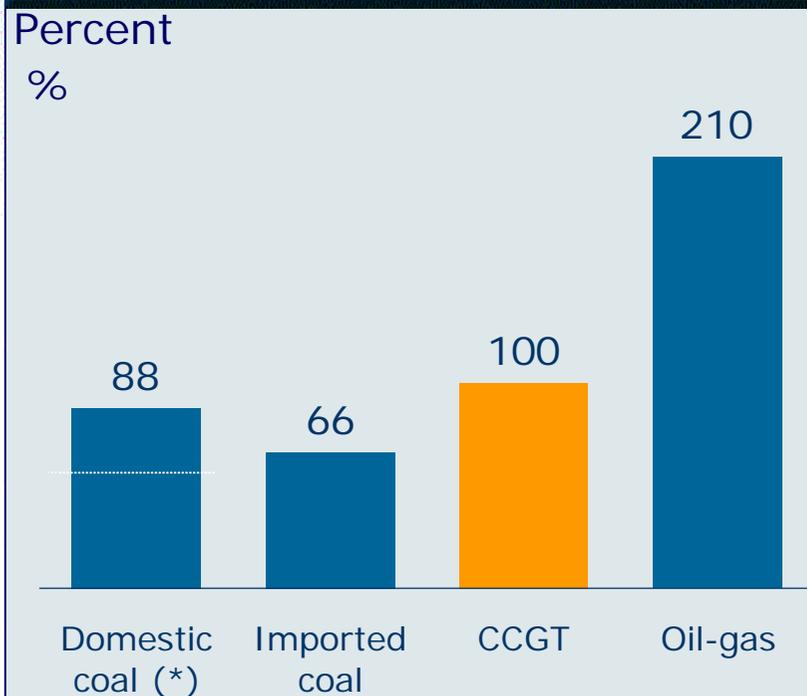


Current generation portfolio has improved its performance and is well prepared (availability and efficiency) to compete in the market in the medium and long term

# Optimizing asset portfolio: CCGTs will improve asset mix



## Variable costs by fuel type



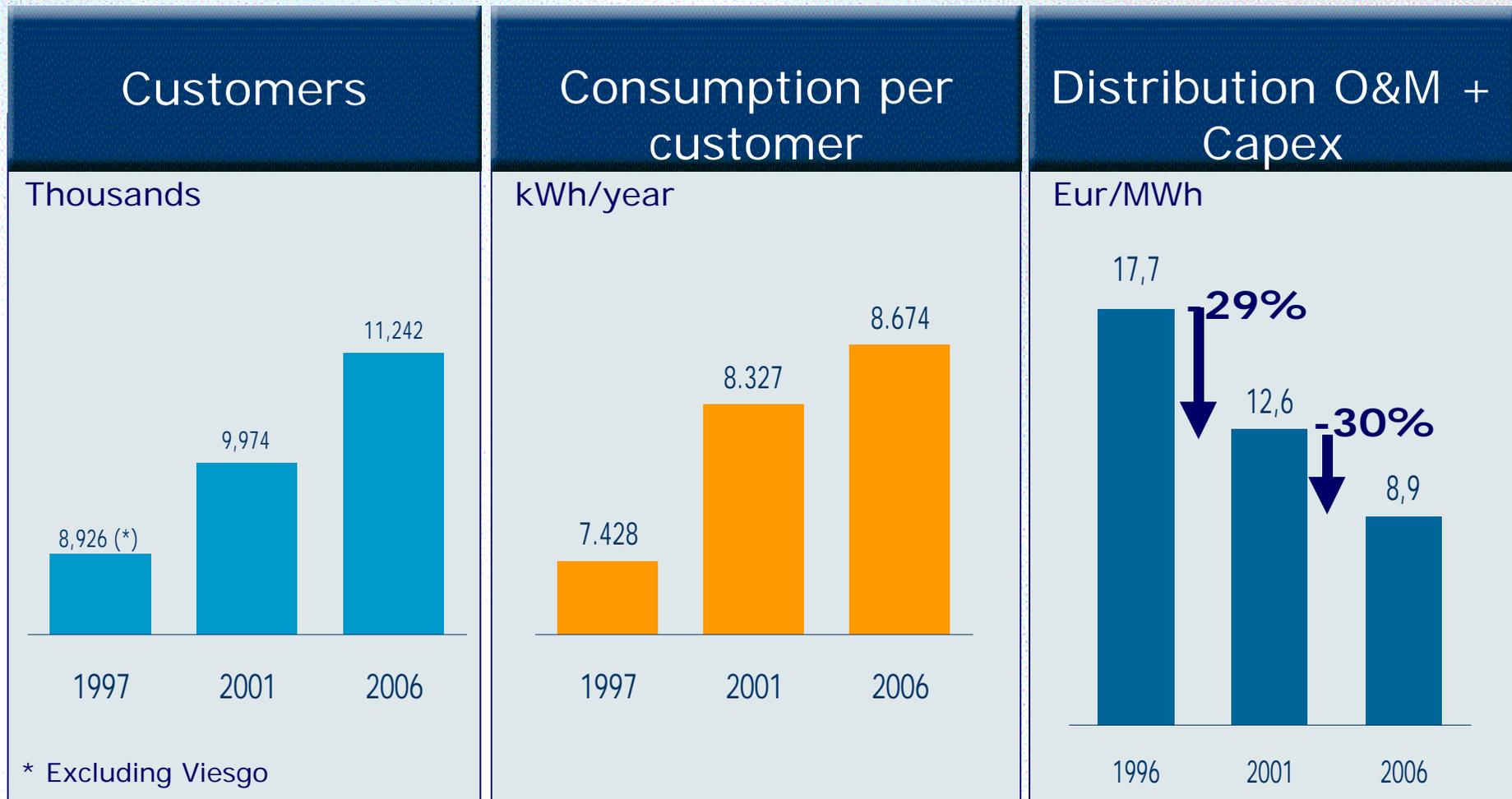
## Full cost of Endesa plant



CCGTs will replace obsolete oil-gas plants in the merit-order, but not coal  
If CCGT are to be profitable in the market, current Endesa plant will earn high returns, as their full cost is lower than CCGT

(\*) Variable cost, net of coal incentive: 55

# In the distribution business, Endesa has also improved its performance significantly



The distribution business in Spain is adding around one million customers every four years, with increasing consumption and profitability

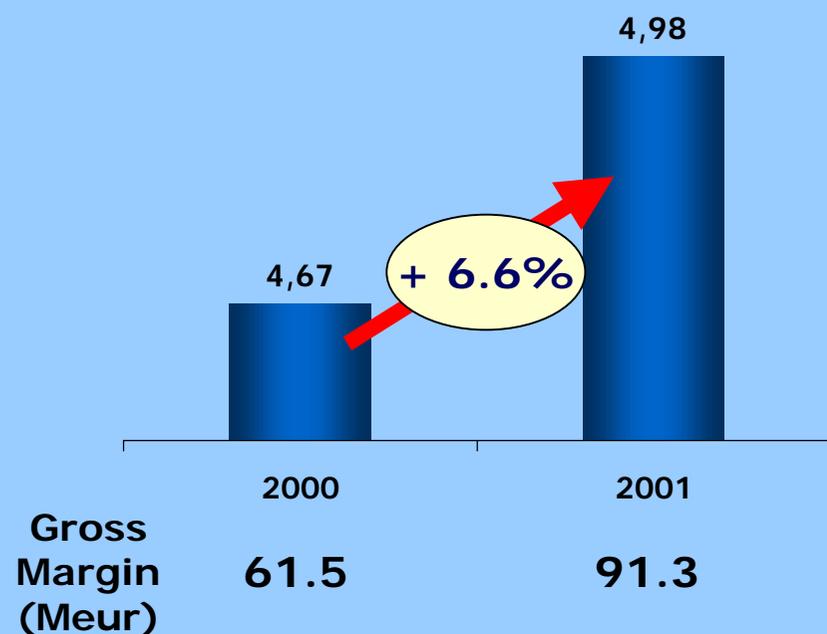
# Ensuring a profitable supply activity



2001 has shown a significant improvement in profitability

Focus for the future

Prices to eligible customers (Euro cent/kWh)

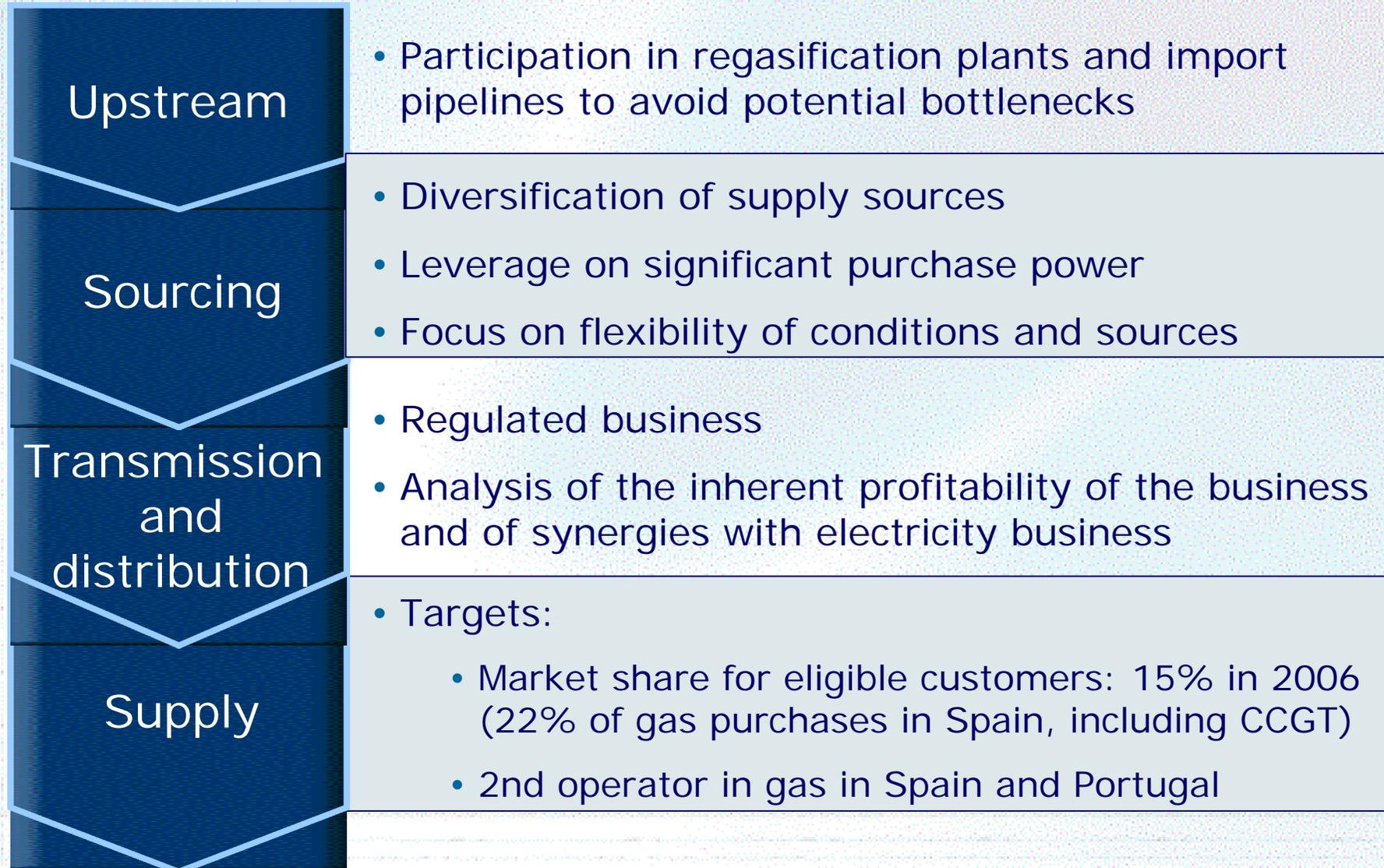


Profitable leadership, through increasing unit margins

Enlarge our customer relationship: Cross-selling of services (Egar), and joint marketing of gas and electricity

Guarantee success of our supply business after full liberalization

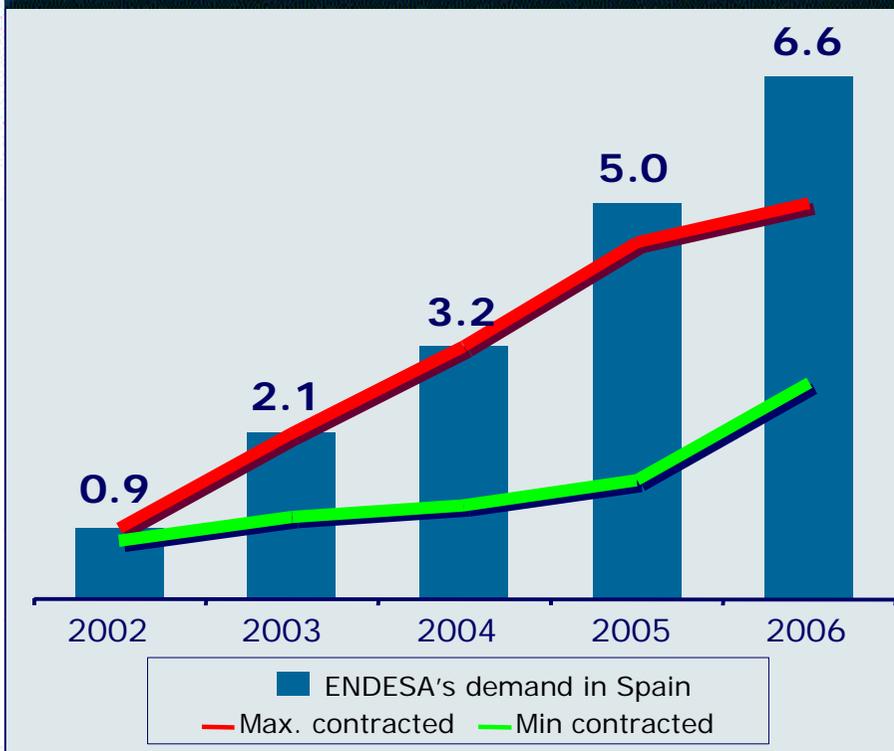
# Becoming a credible competitor in gas



# Endesa's gas sourcing: competitive and flexible conditions



Endesa's expected needs in Spain vs. current supply contracts (bcm)



Endesa's gas procurement needs for Europe 2007-2010

	Expected consumption (bcm)
<b>Spain</b>	
CCGT (4,000 MW)	3.4
Islands	1.8
Supply	3.3
<b>Total</b>	<b>8.5</b>
<b>Rest of Europe</b>	
CCGT (4,000 MW)	3.0
Supply	0.5
Total	3.5
<b>Total Spain and Rest of Europe</b>	<b>12.0</b>

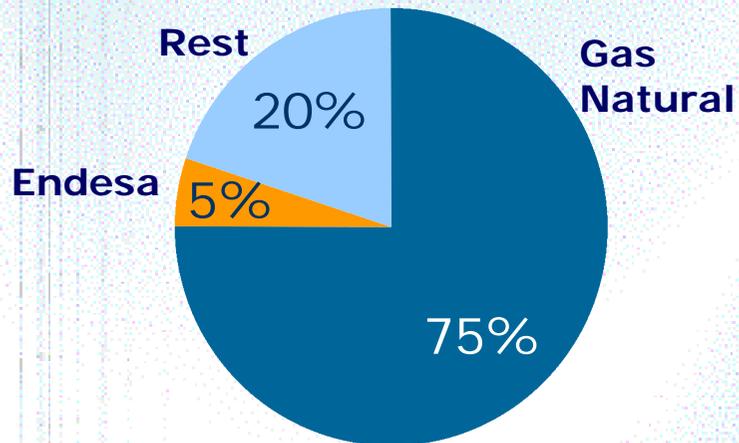
Endesa will leverage on its unique purchasing power and on the already existing contract portfolio to ensure a flexible and competitive gas procurement

# Expected position in gas market



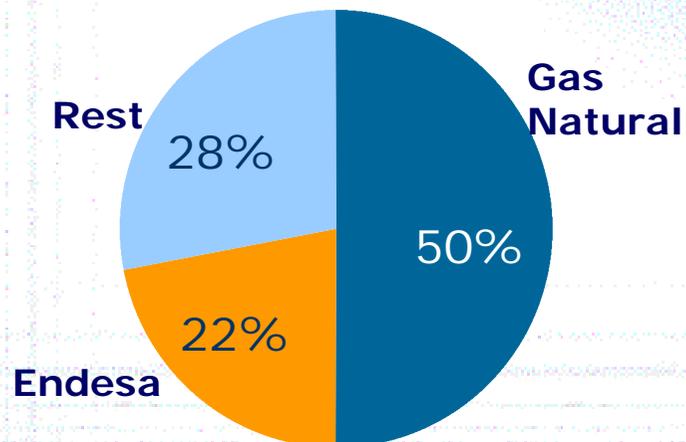
(on total gas consumption in Spain)

## Current situation



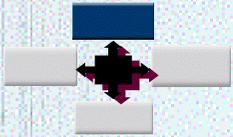
- ENDESA is the electric utility with the broadest presence in the Spanish natural gas market
- ENDESA's market share in supply of gas is higher than Gas Natural's share in supply of electricity

## Perspective for 2006 (30-32 bcm Spain)



- Total targeted share in domestic gas volumes managed by ENDESA : 22% (including its own generation)
- Target market share for supply: 15%
- Consumption for ENDESA's own generation: 4 bcm

\* Includes total consumption by retail/commercial, industrial and electricity generation



Extracting value through efficiency & growth

## "ENERGY: Our core business"

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### Europe

- **Consolidate current business**
- **Achieve Business Plan**
- **Organic growth & repowering**
- **supply and management of portfolio assets**

### Latin America

- Consolidate current Business
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### Other businesses

Extract value

Telecom

New Tech&services

Add value

# Figures for European Investments 2001

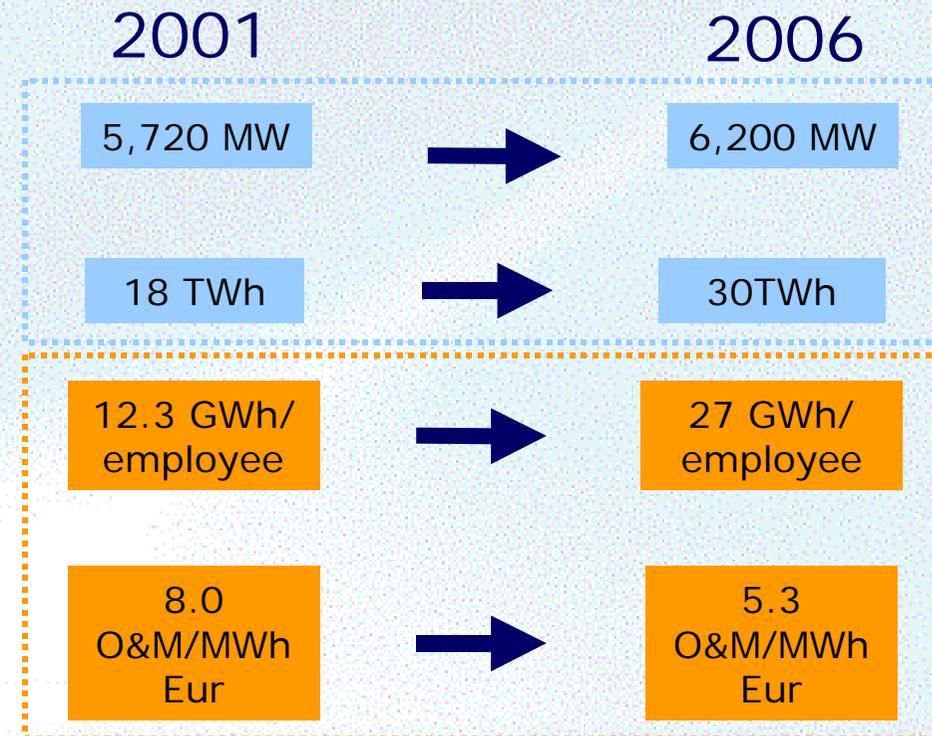


European EBITDA Eur 249 M = 8.5% of Domestic EBITDA > Viesgo EBITDA

		Total Company			
<b>Endesa Italia</b> <b>45%</b>	• Production:	16.2 TWh	<b>E. Italia+SNET +Tejo</b>	<b>% Share of Endesa</b>	
	• Revenues:	Euro 1,210 M			
	• EBITDA:	Euro 361 M			
<b>SNET</b> <b>30%</b>	• Production:	7.6 TWh	<b>Production</b>	<b>27.8 TWh</b>	<b>11.0 TWh</b>
	• Revenues:	Euro 517 M	<b>Revenues</b>	<b>€ 1.98 bn</b>	<b>€ 0.79 bn</b>
	• EBITDA:	Euro 127 M	<b>EBITDA</b>	<b>€ 625 M</b>	<b>€ 249 M</b>
<b>Tejo</b> <b>35%</b>	• Production:	4.0 TWh			
	• Revenues:	Euro 251 M			
	• EBITDA:	Euro 137 M			

- Successful performance since takeover
- Focus on extracting value through:
  - Improving assets efficiency
  - Enhancing gross margin
  - Reducing fixed costs
  - Tax optimisation
- Positive regulatory outlook
- Profitability of business plan, well on track

## Expected evolution of operating parameters 2002/06



# France and Portugal



## FRANCE: SNET 2001

2.600 MW: Flexible mid-merit  
2900 GWh supply to eligible  
customers (3% market share)

## PORTUGAL:

660 MW coal-fired+ 61 MW  
renewals  
Gas distribution (Setgas, Portgas)

### Focus for the future

#### •Extracting value from current assets:

- Efficiency to Endesa´s level
- Workforce reduction agreed
- New coal supply contracts
- Maximising power plant yield

#### •A balanced energy portfolio:

- Greenfield/brownfield projects
- Optimisation of energy supply and demand
- Joint supply vehicle Endesa/SNET

### Focus for the future

#### •Extracting value from current assets:

- Maximising PPA margin
- Increasing availability
- Restructuring debt

#### •A balanced energy portfolio:

- Optimising the Iberian portfolio
- JV with Sonae for supply to eligible customers
- Possible increase of installed capacity

# Supply and Energy Management

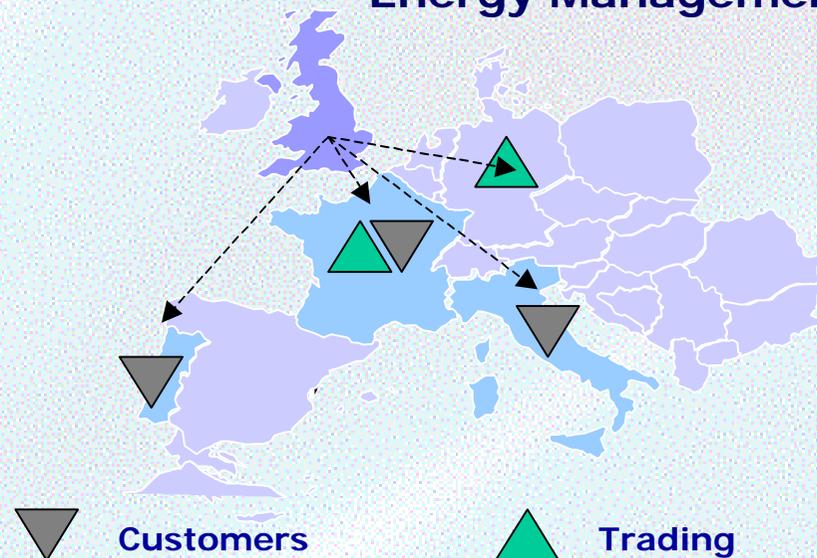


A fundamental part of our balanced portfolio and the key to leveraging value

## Energy Management

**Flexible portfolio management**

- 60 TWh traded - 2001
- 90% of the trading physical, mostly in the German and French markets
- Energy movement activities across all countries

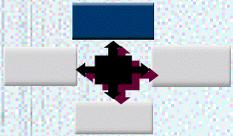


**Using the portfolio to serve the assets and the clients**

- Portfolio management of Endesa's assets
- Participation in EdF virtual capacity auctions
- Other structured deals

**Building a sound pan-European customer base**

- Supplying to more than 100 eligible customers across Europe: Fiat, Ford, Cargill, ...
- Total annual supplied: 3.9 TWh
- Focus on Pan-European customers. Developing a wide range of value-added services



Extracting value through efficiency & growth

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### Europe

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### Latin America

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Extract value

Telecom

Other businesses

New Tech&services

Add value

# Consolidating current business: positive track record



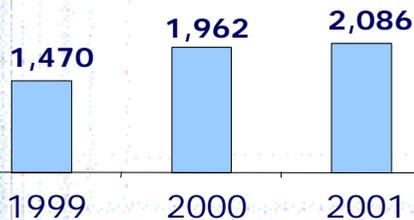
An extraordinary tough environment:

- Asian / Latin American Crisis
- “El Niño” effect in Chile
- Crisis in Argentina, Colombia and Peru
- Rationing in Brazil

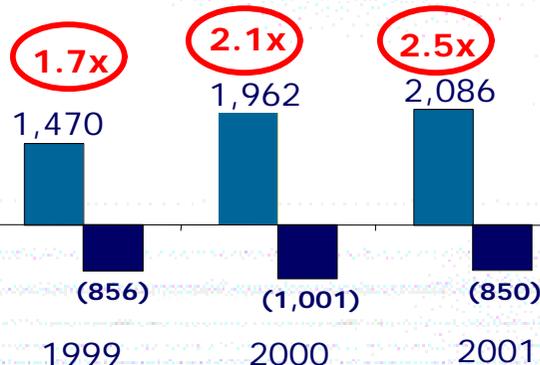
- Excellent Asset Base
- Strong Operating and Financial improvements

## Positive track record

EBITDA (Eur M)



EBITDA/Financial expenses



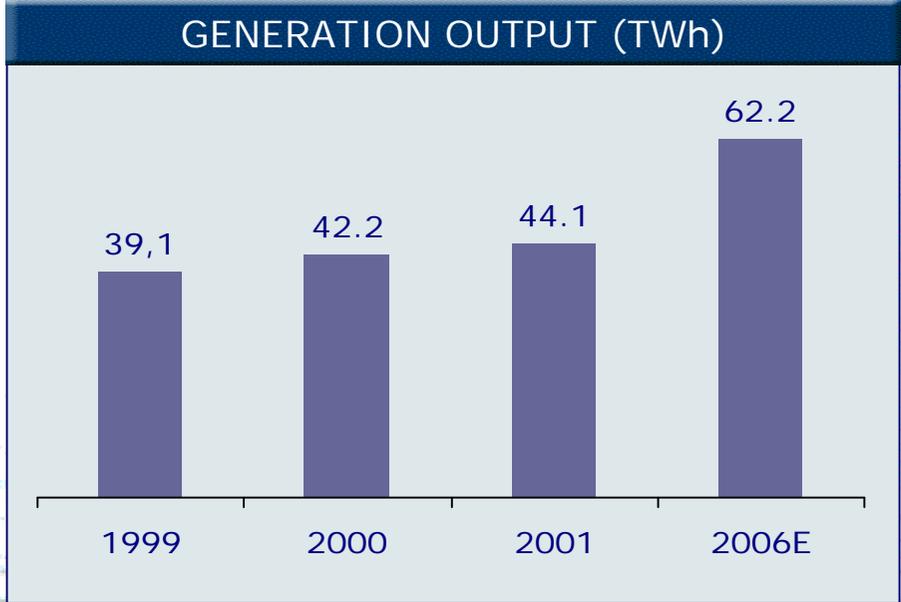
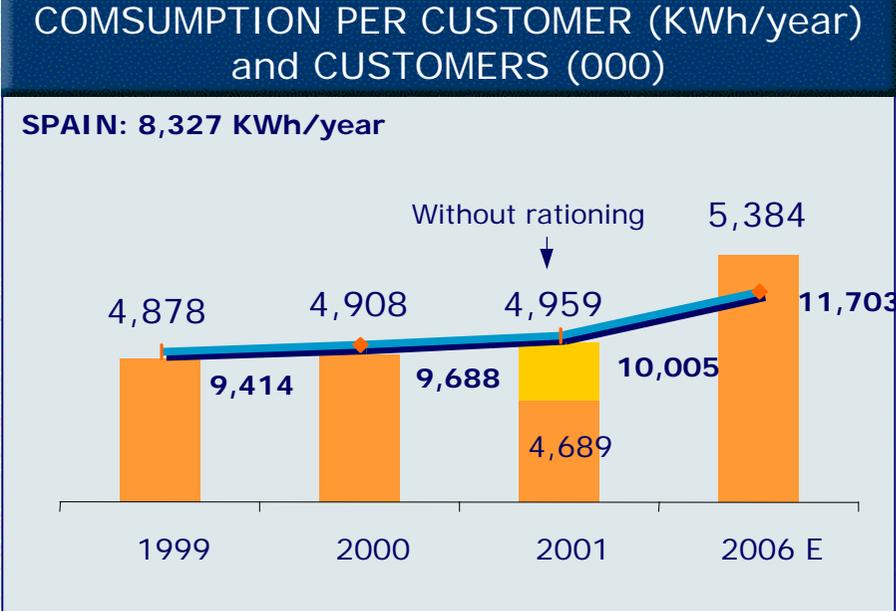
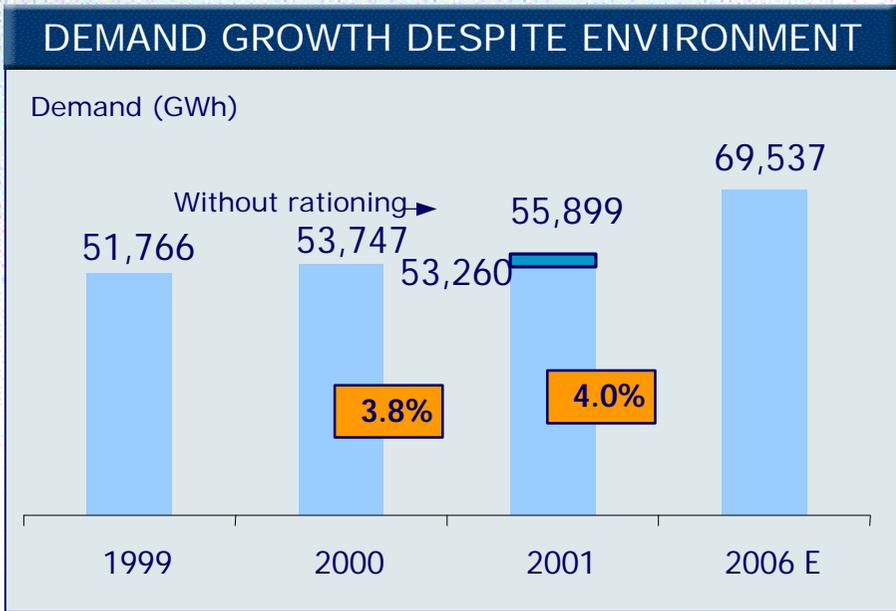
PRODUCTIVITY

MW / employee (\*)    Clients / employee (\*)



\* direct workforce

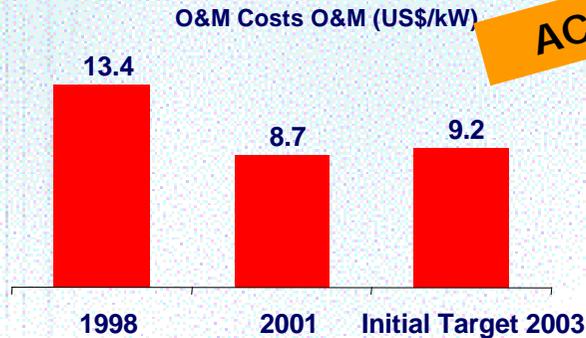
# Strong organic growth



# Genesis Project: strong financial and operating improvements



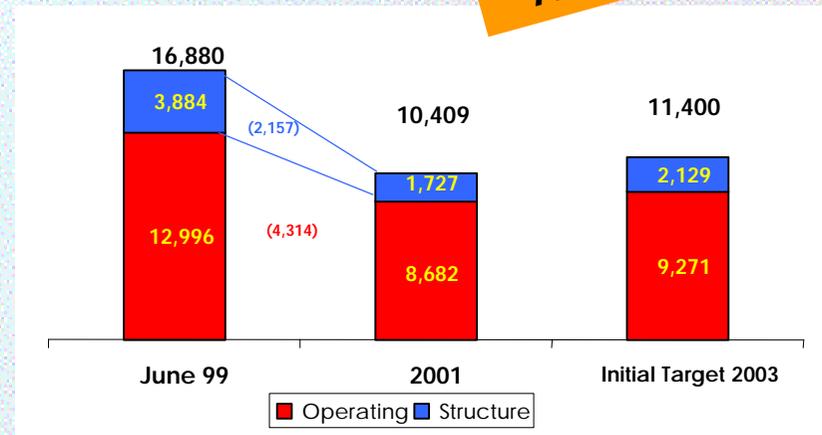
## Generation



**ACHIEVED**

## Workforce

Employees (end year)



**ACHIEVED**

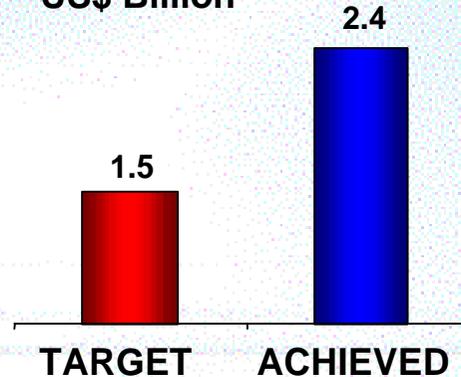
## Distribution



**ON COURSE**

## Portfolio Management

US\$ Billion



**ACHIEVED**

Transelec  
 Aguas Puerto  
 Aguas Cordillera  
 Elecar  
 Infraestructura 2000 (\*)  
 Edenor

(\*) March 2002

## Financial Performance

**TOTAL FINANCIAL SAVINGS: 221 M US\$**

- Loan refinancings
- Tax optimization
- Joint Treasury operations
- Yankee Bonds' Repurchase

**ACHIEVED**

# Proven skills deliver significant improvements in distribution



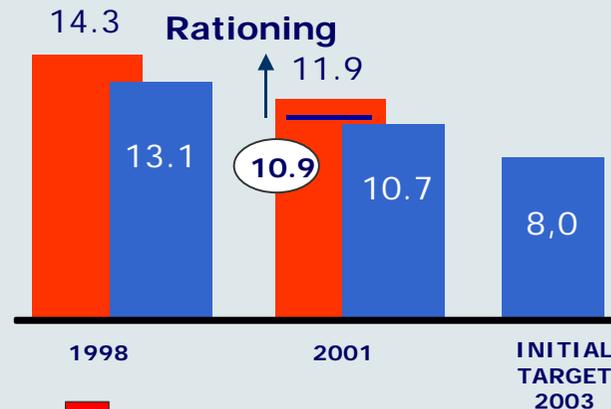
## Efficient Cost Management

### O&M (US\$/MWh)



■ = with initially expected sales volume

### LOSSES (%)



■ = with Grupo Endesa methodology

■ = with Genesis methodology

## Investments (Capex)

### CAPEX (US\$/MWh)



■ = with initially expected sales volume

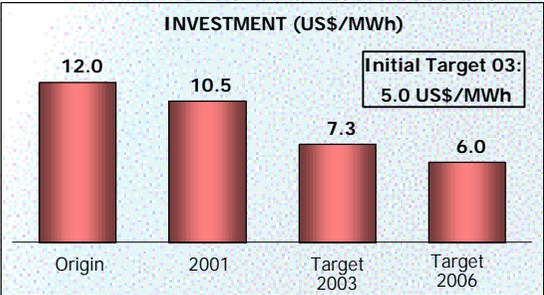
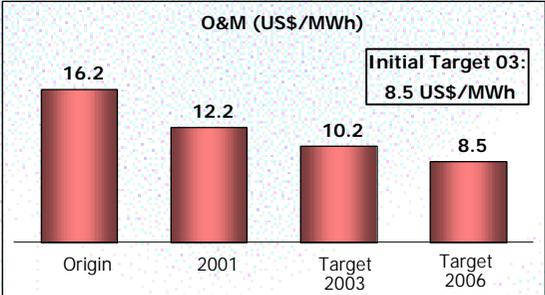
# Genesis Project new outlook and targets



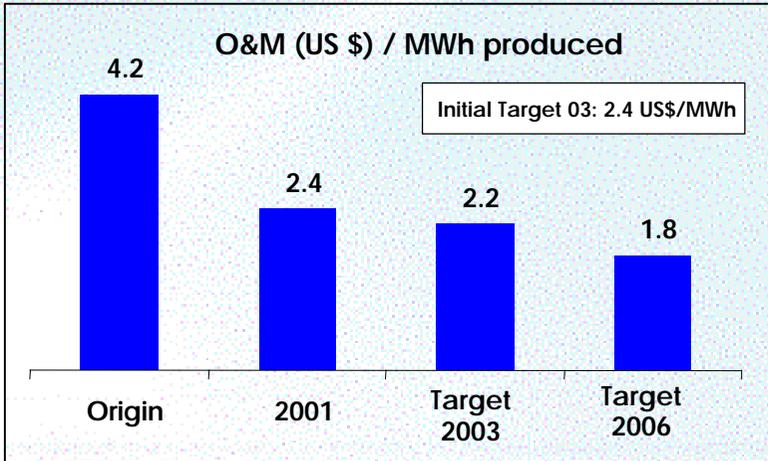
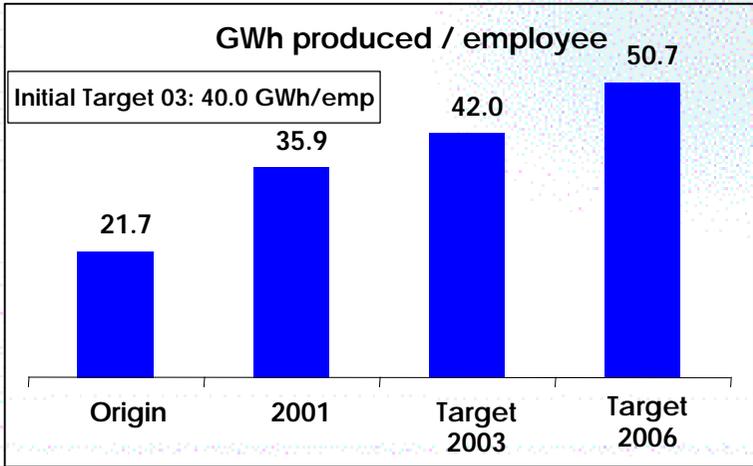
We maintain our targets adapting them over time in an...

**ADEQUATE COST/BENEFIT BALANCE**

DISTRIBUTION



GENERATION



# Proactive management of regulation to offset country risk

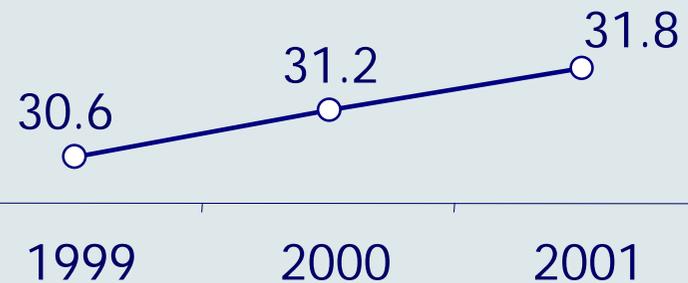


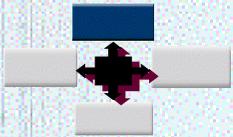
### Average Generation Sales Price (Euro/MWh)



### Average Value Added for Distribution (VAD)

(US\$/MWh)





# Profitability



Extracting value through efficiency & growth

## "ENERGY: Our core business"

### Spain

- Reinforce leadership
- Cost reduction plan
- Optimise asset portfolio new capacity
- GAS: credible & largest competitor
- Cross selling

### Europe

- Consolidate current business
- Achieve Business Plan
- Organic growth & repowering
- supply and management of portfolio assets

### Latin America

- Consolidate current Business
- Strong organic growth
- Genesis: cost-cutting plan
- Proactive management regulation offsetting

Extract value

Other businesses  
Telecom

New Tech&services

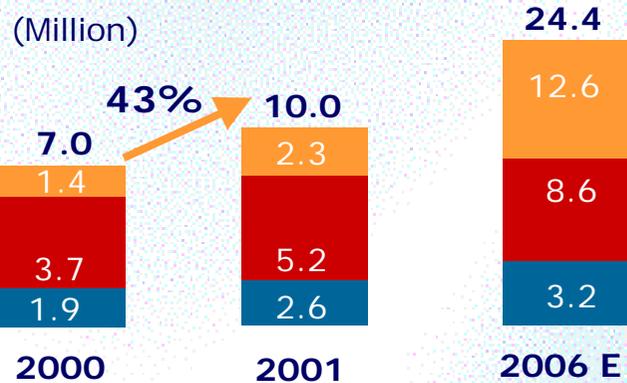
Add value

# Telecoms expected performance



## Customer Base

Fixed Mobile Internet



## Market Shares

Dec. 2001 2006 E

Mobile	17.7%	21%
Fixed	4.5%	10%
Internet	40%	43%

**Amena share in new adds in 2001: 29%**

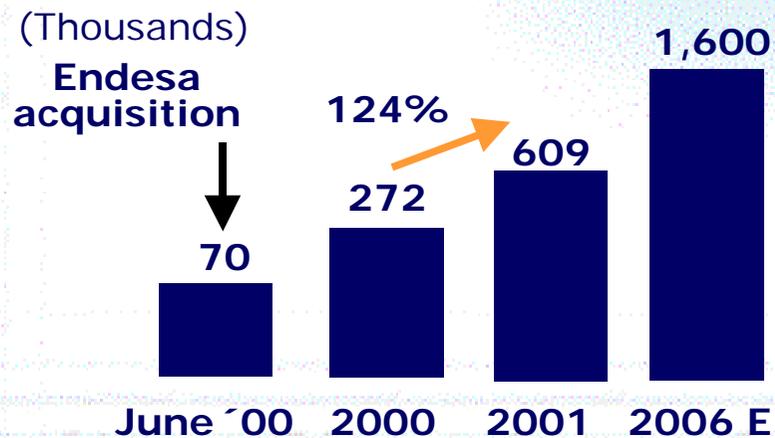
2001 12.6%

2006 E 20.4%

**Smartcom share in new adds in 2001: 27%**

AUNA

Smartcom

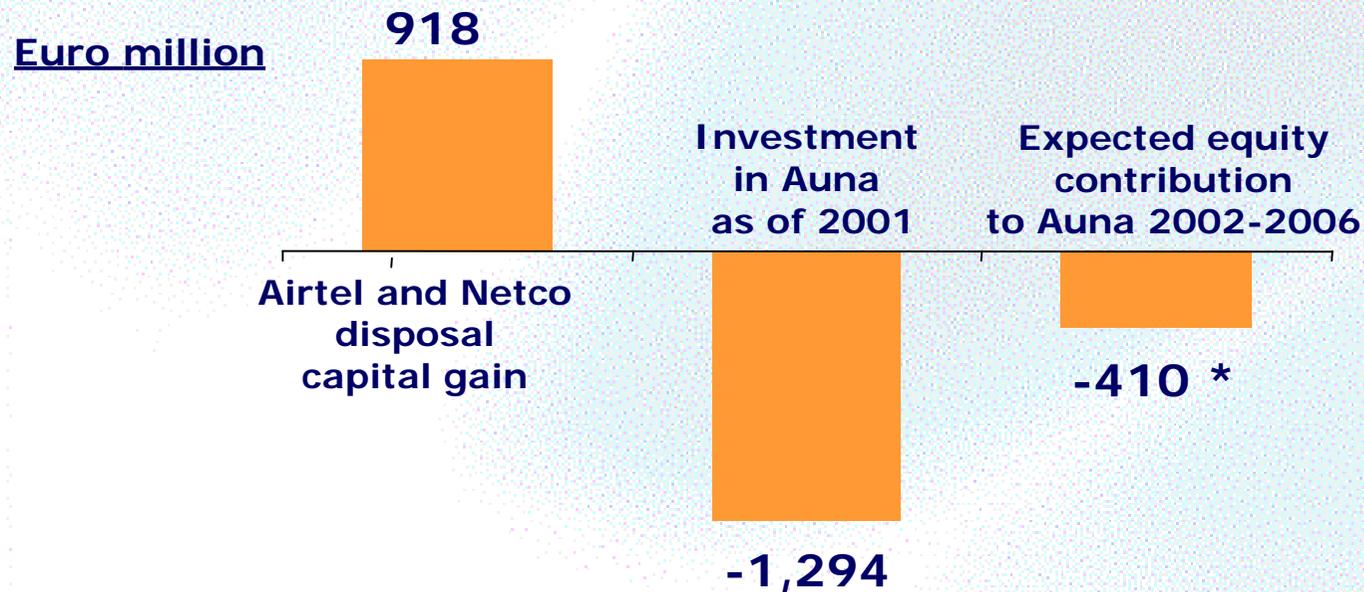


# Auna: investment to date and returns



## Endesa's investment in telecoms in Spain

The capital gain from the disposal of Airtel and Netco amounts to 71% of the accumulated investment in AUNA.



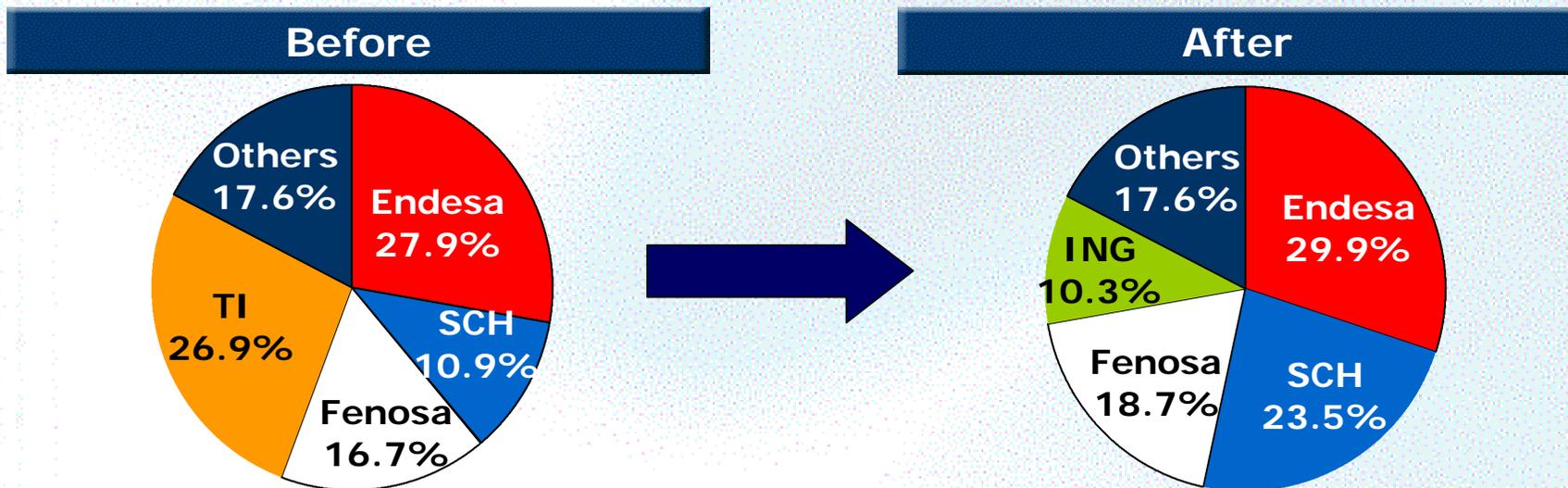
- Auna has already invested Eur 6.4 billion
- Auna's future funds need for 2002-06: Eur 3.6 billion

(\* ) For a 27.8% stake

# Auna´s shareholder structure



- TI's 26.9% is being purchased by SCH plus ING (22,9%), accompanied by Endesa (2%) and Unión Fenosa (2%), AUNA's core shareholders
- Endesa will continue to support the AUNA project and seek to extract value in the medium term



The transaction has valued AUNA's equity at Eur 7.4 bn (Eur 11.5 bn EV), This valuation would represent an estimated capital gain of Eur 1.2 bn for Endesa.

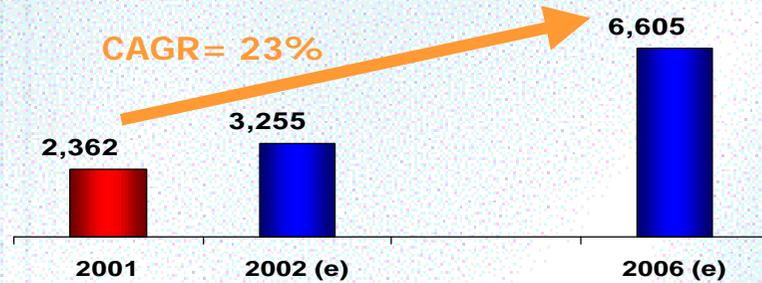
New CEO appointed. Business plan under review

# Telecoms expected performance

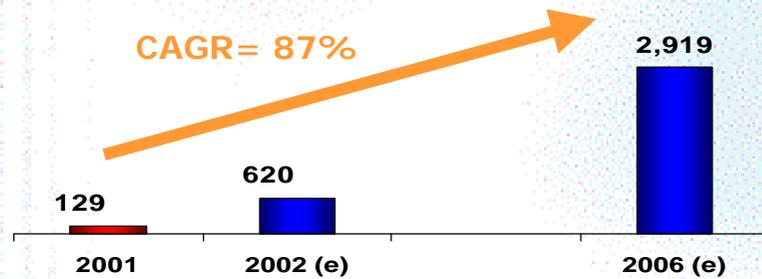


## AUNA

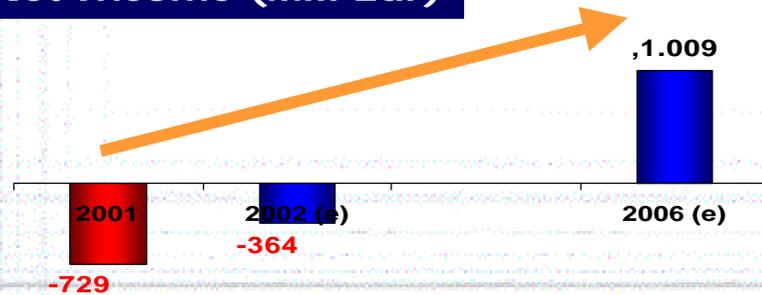
### Revenues (Mill Eur)



### EBITDA (Mill Eur)

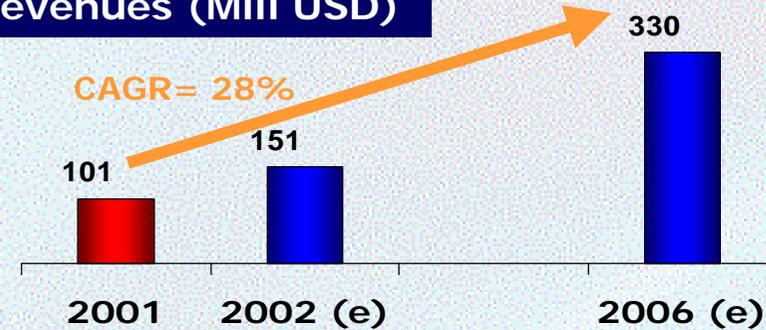


### Net Income (Mill Eur)

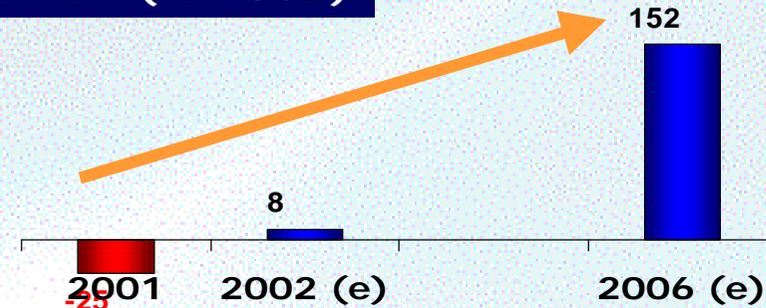


## Smartcom

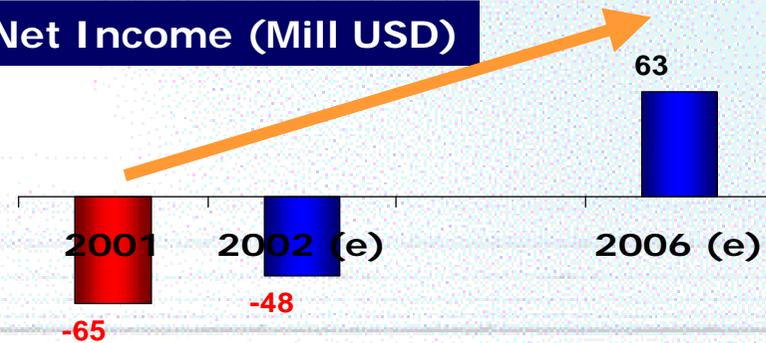
### Revenues (Mill USD)



### EBITDA (Mill USD)



### Net Income (Mill USD)



A focused strategy to maximize the value of our core business



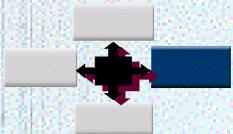
**1. Profitability**

**4. Strengthen  
balance sheet**

**2. Portfolio  
management**

**Core  
&  
Value**

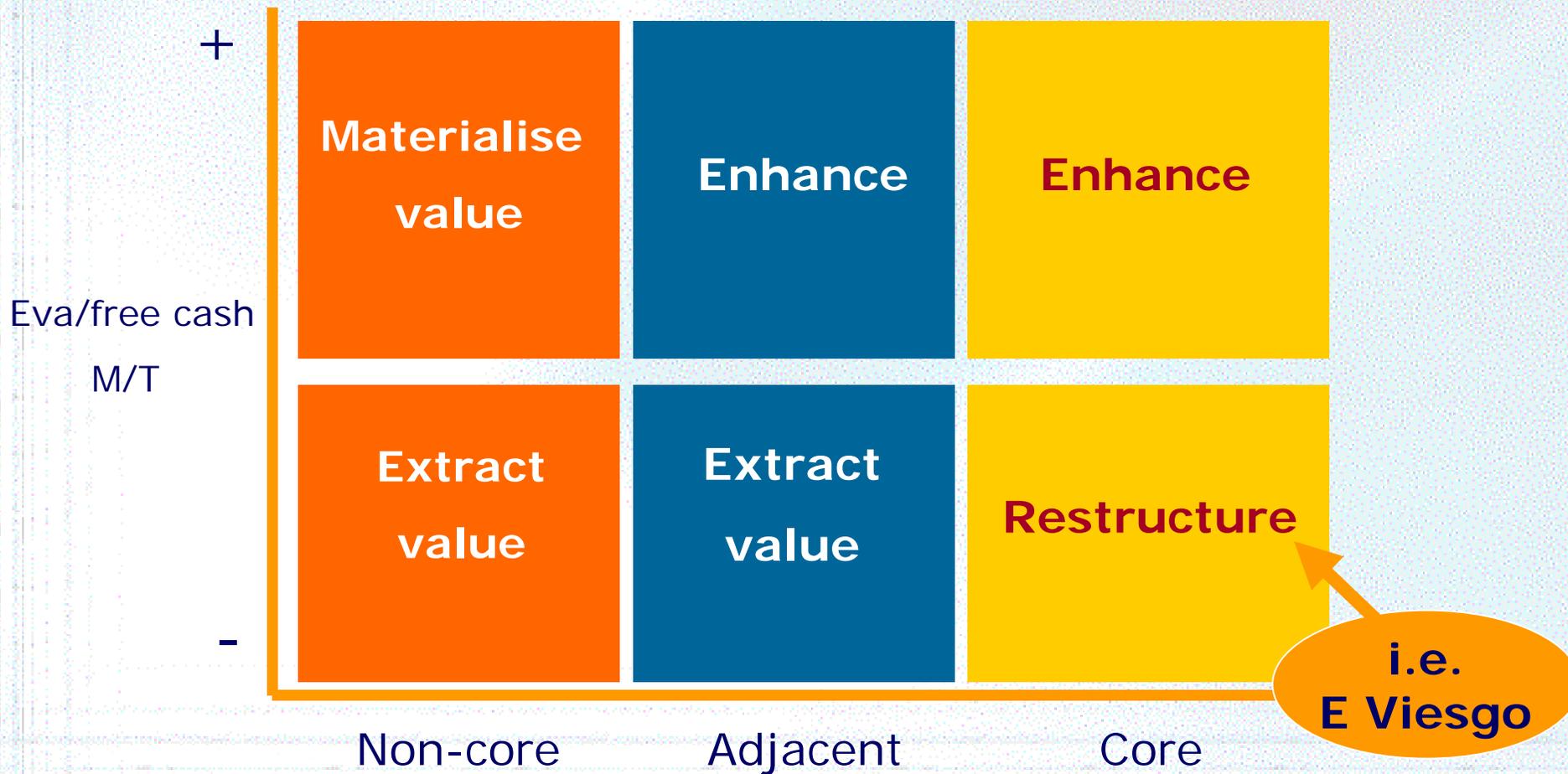
**3. Expansion based  
on  
organic growth**



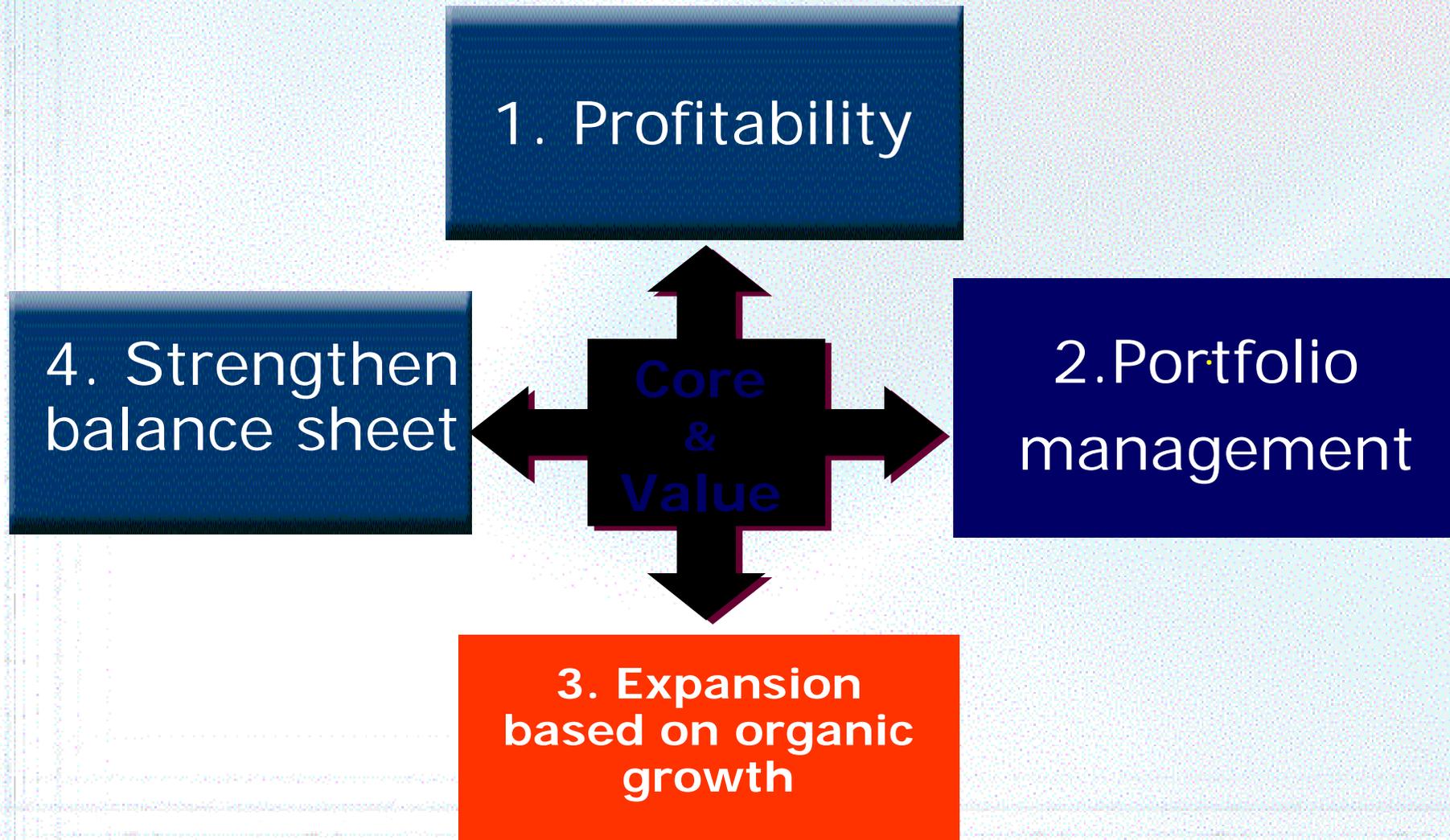
# Portfolio Management: Divesting Non-Core

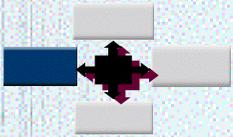


**DIVESTITURE PLAN: 97-01 = Eur 5.7 Bn  
02-06 = Eur 5-6 Bn**



# A focused strategy to maximize the value of our core business

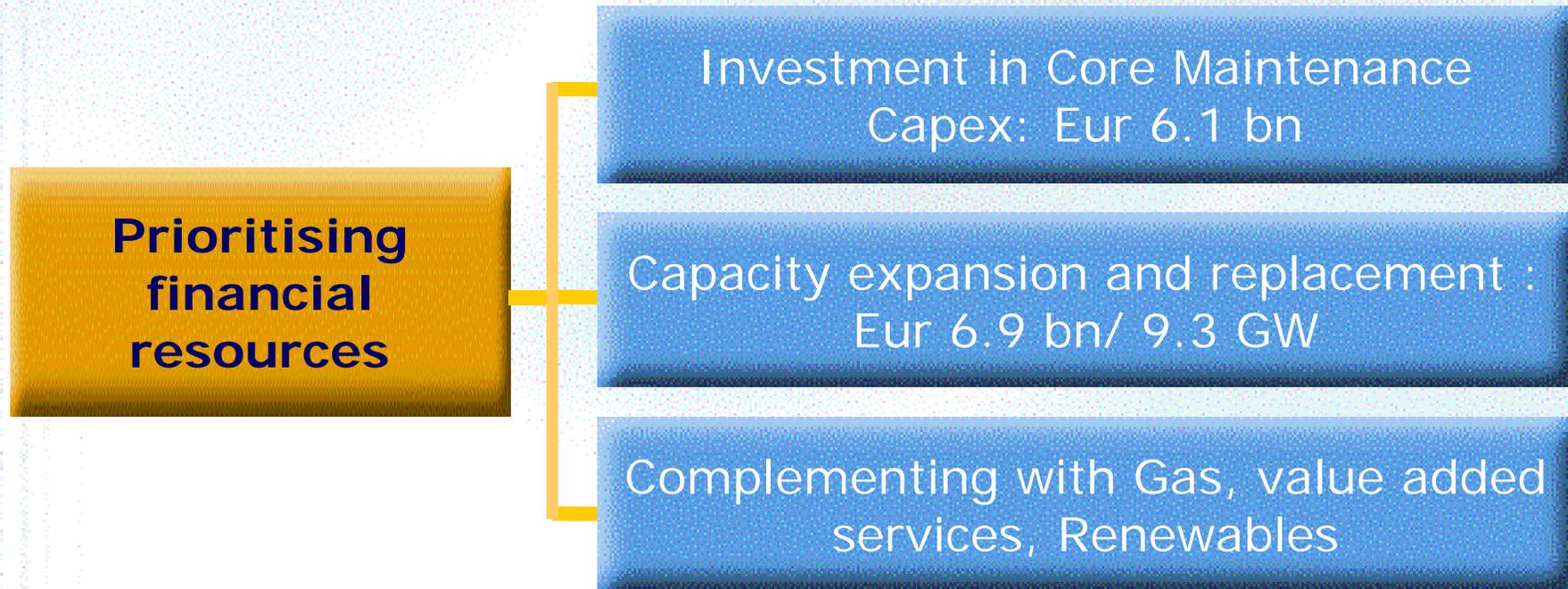




# Expansion: Enhancement of our Core Business



Endesa's expansion plan is focused on the core energy business, profiting from the organic growth of our own markets



**TOTAL INVESTMENT BUDGET 2002- 2006: Eur 13 bn**

# Investment Plan for organic growth 2002-2006



EXPANSION PLAN (Eur Bn )		
	2002 - 2006	2001 - 2005
Dom. (CCGT + gas)	2.9	2.6
Lat America	0.9	4.2
Europe	2.1	5.0
Telecom.& New. Tech.	0.5	0.8
Other	0.5	1.8
	6.9	14.4

## SPAIN

9 CCGT to be commissioned in 2002-06:  
 1 imported coal plant  
 New capacity in wind farms (1 GW)

## Rest of EUROPE

Endesa Italia: Repowering of 8 CCGT (3 GW). Increase participation  
 SNET: increase participation (2004-05).

## LATIN-AMERICA

CCGT in Fortaleza (310 MW) Others: 1.5 GW

## TELECOMS

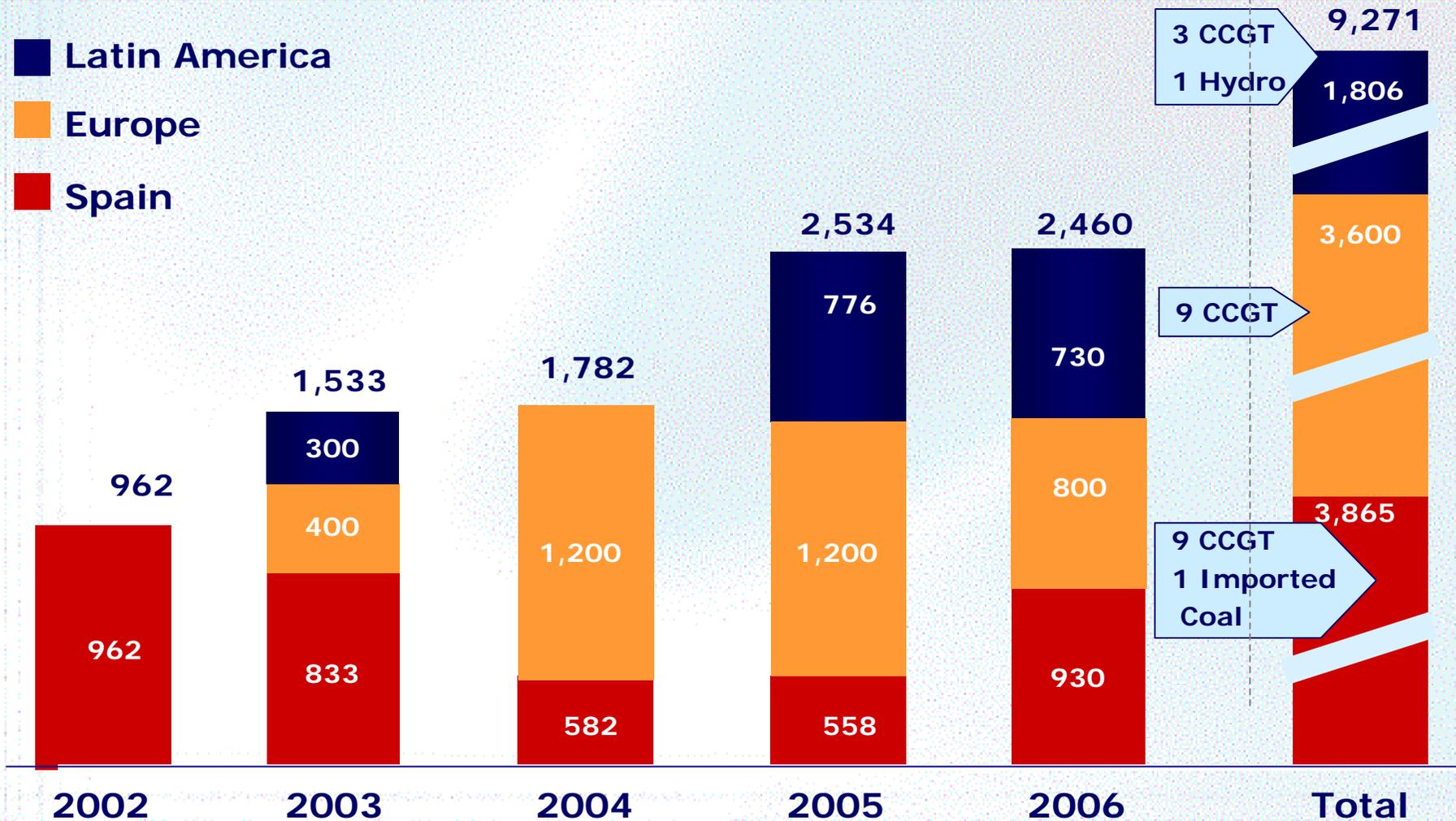
Committed investments in AUNA + development of PLC.

# Expected new capacity to be installed in 2002-2006



## MW installed per year

- Latin America
- Europe
- Spain



Excluding co-generation and renewables

A focused strategy to maximize the value of our core business



**1. Profitability**

**4. Strengthen  
balance sheet**

**2. Portfolio  
management**

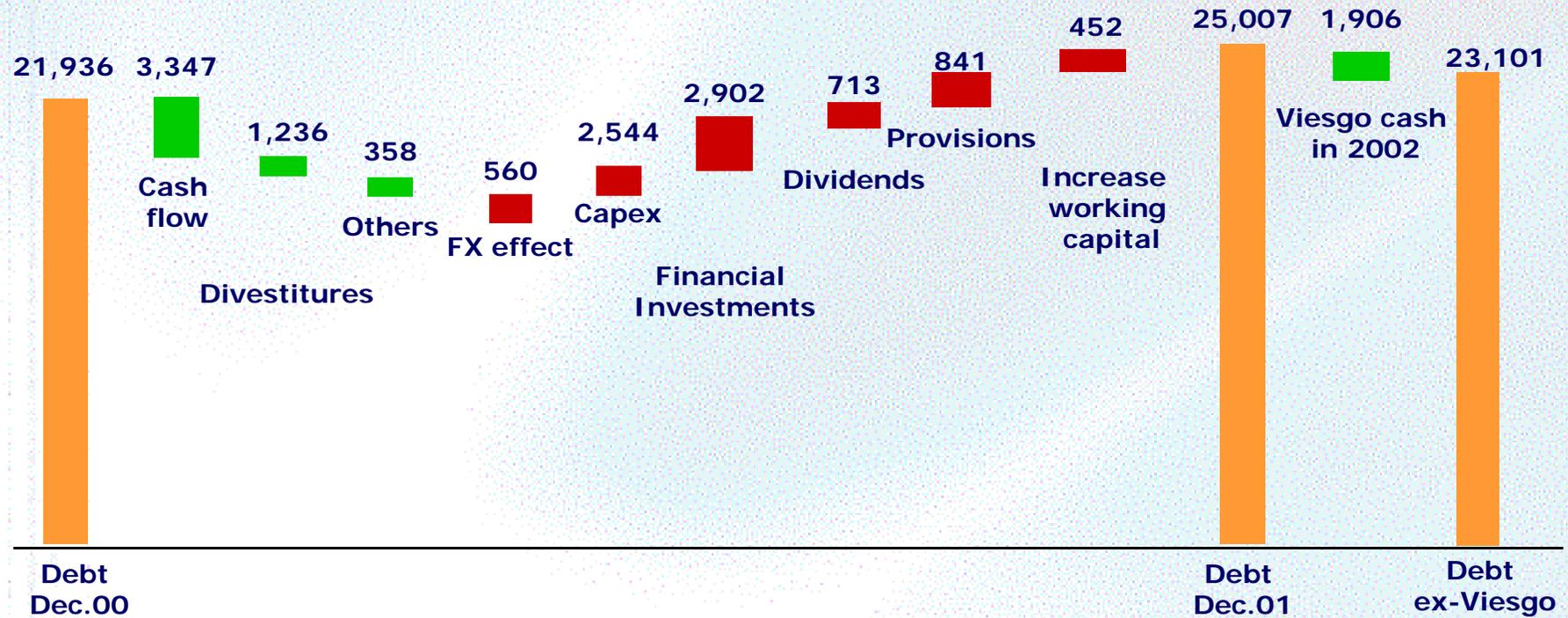
**Core  
&  
Value**

**3. Expansion based  
on  
organic growth**

# Debt and Cash Flow in 2001

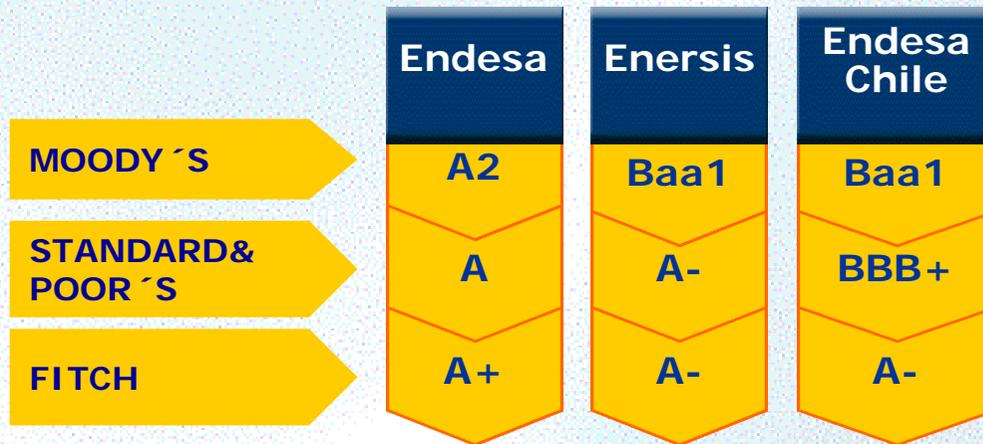


Euro million

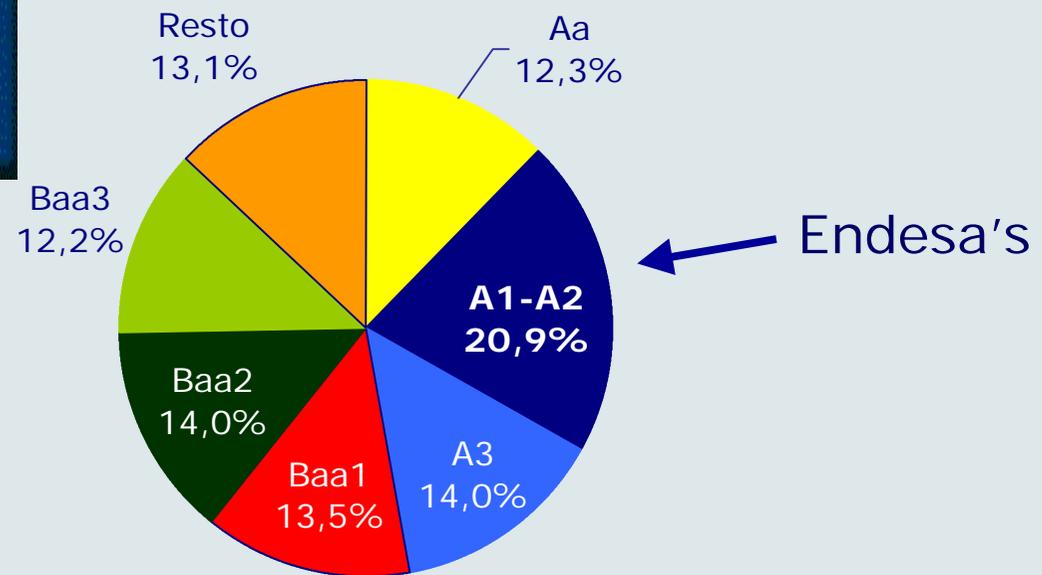


- Total investments were Eur 5,446 M
- Total divestitures amounted Eur 1,236 M

# Endesa enjoys a high credit rating within the industry



Endesa vs. European and US utilities: Moody's ratings (\*)



(\*) Based in a sample of 435 electricity companies with Moody's ratings as of Dec 2000

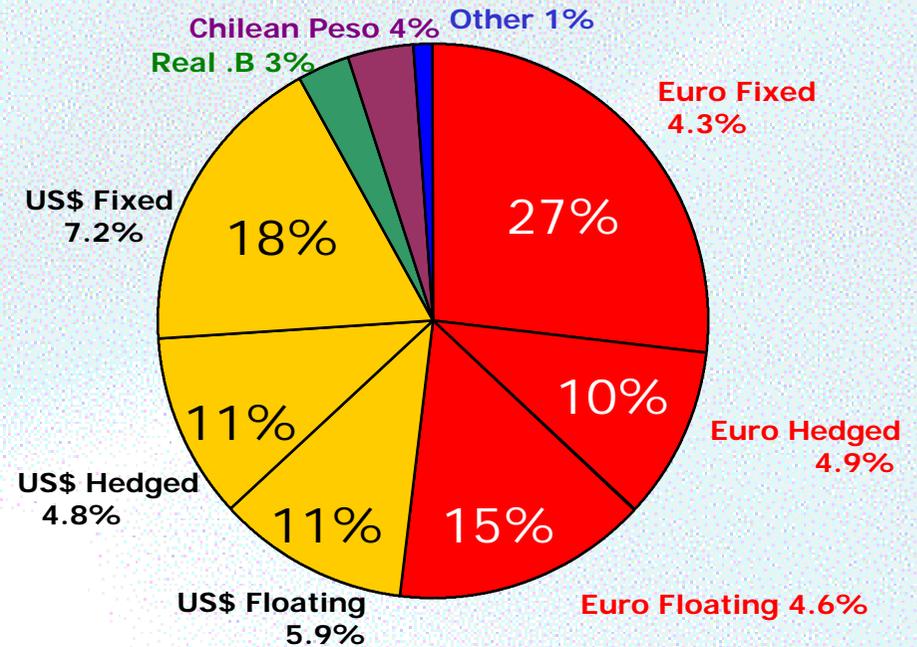
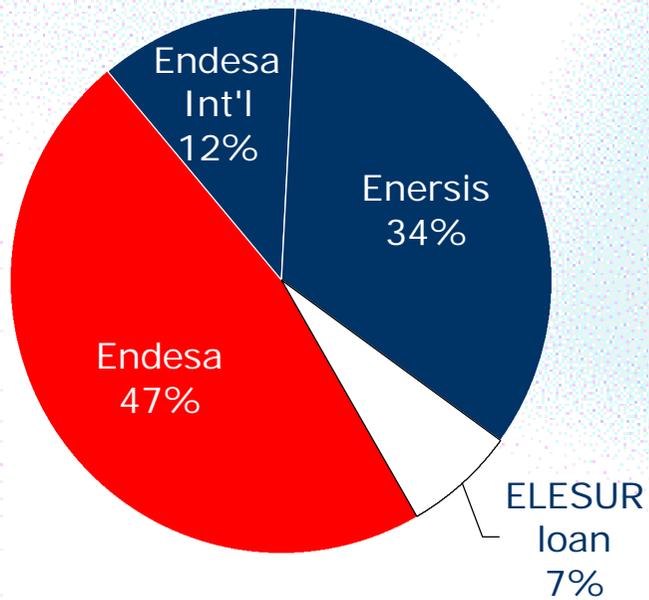
# Debt structure and cost as Dec 2001



Total debt as of December 2001: Eur 25.0 bn

**Allocation**  
 Domestic 47%  
 International 53%

**Cost by currency**  
 Floating Vs. Fixed

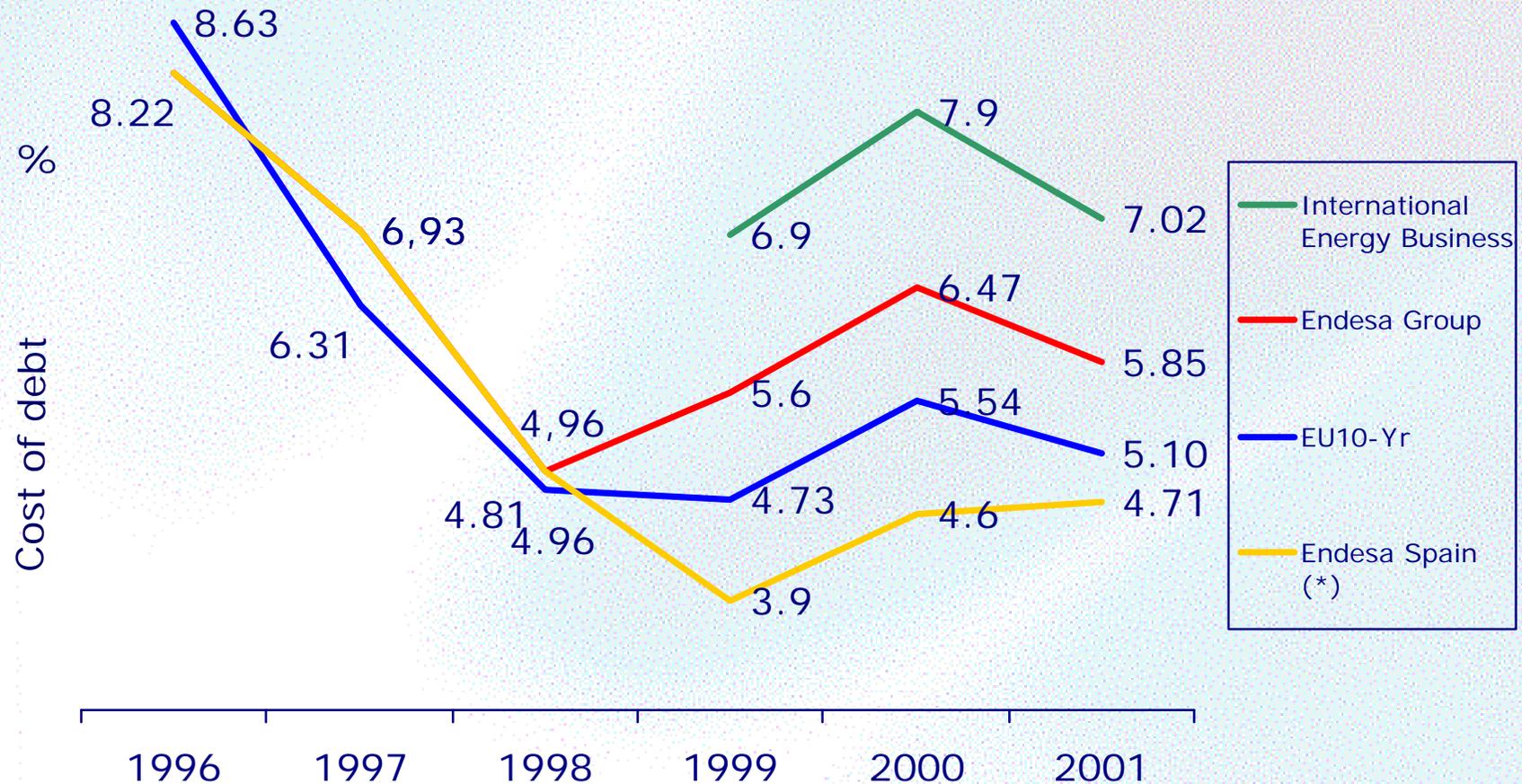


Currency breakdown:

- Euro 52%
- US\$ 40%
- Others 8%

**Total Interest cost : 5.9%**

# Average cost of debt



- Financial flexibility: Eur 2.3 bn 5-year credit lines (Euribor + 12.5-20bp )
- Expected 2002 interest costs to be lower than 2001
- Low cost of debt has resulted in competitive WACC

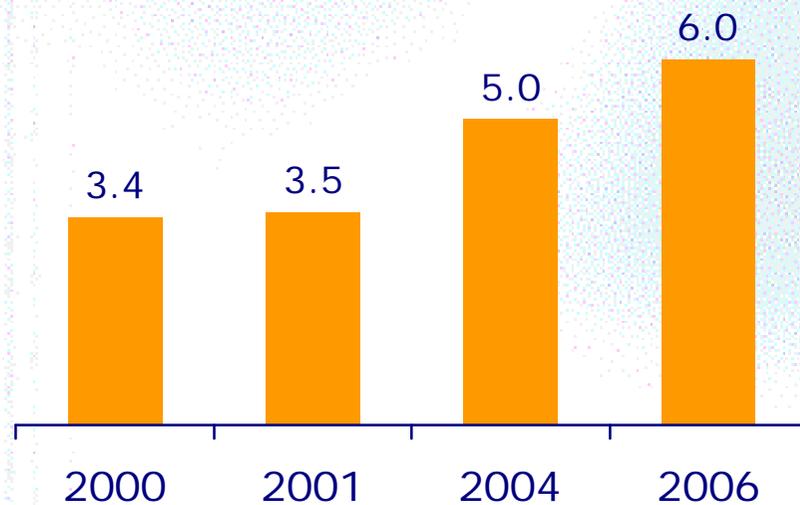
(\*) Including Telecoms

# Financial Strategy: Reduction of Leverage

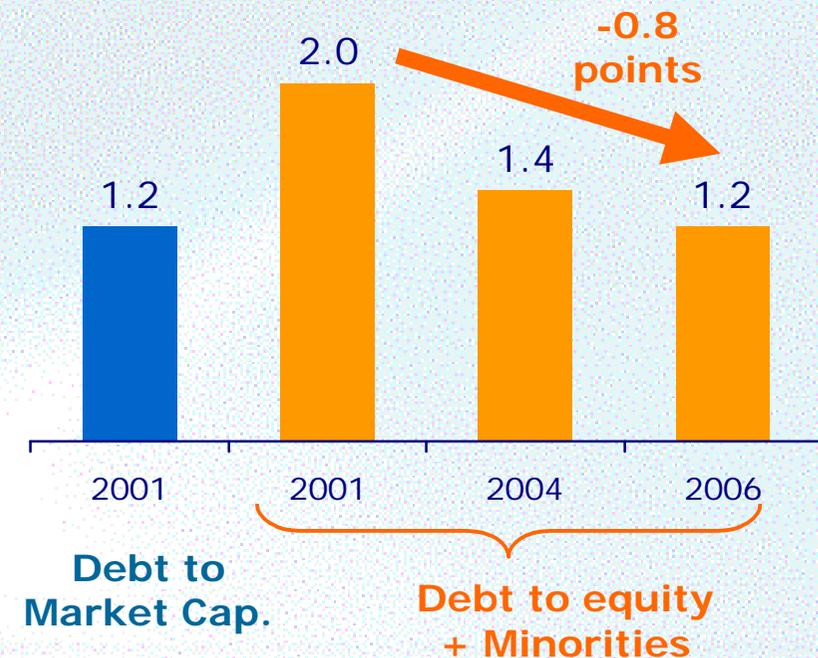


Cash flow + divestitures will allow to cover investment plan plus significant improvement in leverage

## EBITDA to Interest Cost



## Expected evolution of leverage (\*)



(\*) Calculated as Debt / (Equity+Minorities).

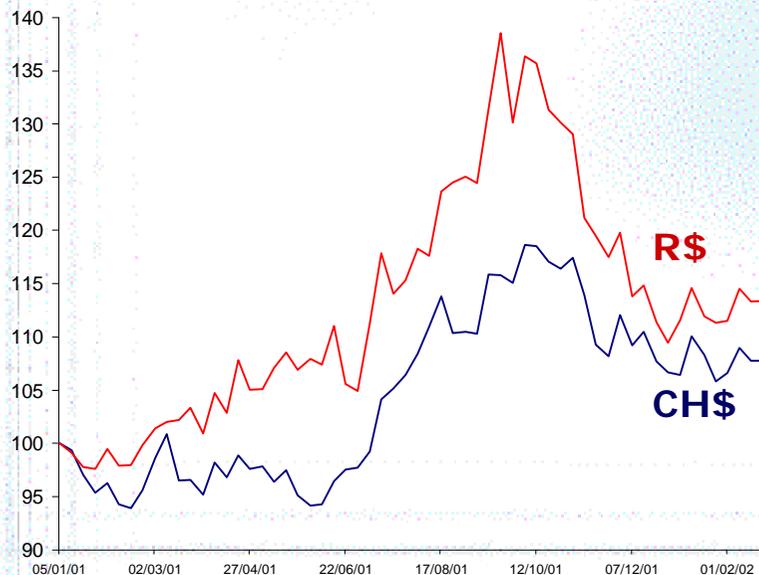
# Latin American currencies



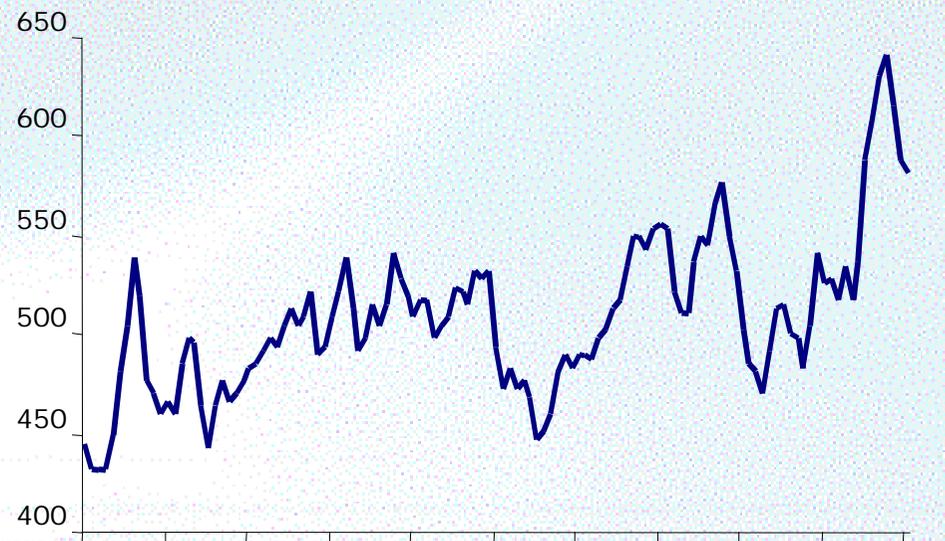
## No contagion of Argentinean crisis

- In the Q4 Chilean and Brazilian currencies have recovered versus the Euro despite the Argentinean crisis
- Chilean peso weakness mostly related to 30-year low copper prices

2001-02 CH\$ and R\$ vs. Euro



10 year CH\$ vs. Euro



92 93 94 95 96 97 98 99 00 01 02



1. Review of Year 2001 Results

2. Strategy Overview

3. Conclusions



**1. Profitability**

**4. Strengthen  
balance sheet**

**2. Portfolio  
management**

**Core  
&  
Value**

**3. Expansion based  
on  
organic growth**

# Forward-looking Statements:



## **Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the United States Private Securities Litigation Reform Act of 1995.**

The U.S. Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This presentation contains certain forward-looking statements regarding anticipated financial and operating results and statistics that are subject to risks and uncertainties. Forward-looking statements include, but are not limited to, information regarding: estimated future revenues, costs, EBITDA, earnings, leverage and other ratios, return on invested capital, return on equity and other financial targets; anticipated increases in demand and market share; implementation of cost control measures and the anticipated benefits thereof; anticipated work force levels; management strategy and goals; synergies; operational efficiencies; cost and tax savings; tariffs and pricing structure; estimated capital expenditures and other investments; expected asset disposals; estimated increases in capacity and output and changes in capacity mix; estimated increases in customers and consumption per customer; anticipated supply needs; macroeconomic conditions.

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

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

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

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

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

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



## **Core, Focus & Value**

**Madrid, 27 february 2002**

# Operational Highlights Year 2001



<b>OPERATIONAL DATA FOR THE GROUP</b>	<b>FY 2001</b>	<b>FY 2000</b>	<b>Change %</b>
Electricity Produced (GWh)	<b>137,236</b>	<b>133,242</b>	<b>+3.0%</b>
Electricity Distributed (GWh)	<b>135,351</b>	<b>132,351</b>	<b>+2.3%</b>
Employees (end of period) (*)	<b>26,889</b>	<b>29,062</b>	<b>- 7.5%</b>

<b>OPERATIONAL DATA ELECTRICITY</b>	<b>DOMESTIC</b>	<b>INTERNATIONAL</b>	<b>% INTERNATIONAL</b>
Electricity Produced (GWh)	<b>92,790</b>	<b>44,446</b>	<b>32%</b>
Electricity Distributed (GWh)	<b>87,307</b>	<b>48,044</b>	<b>35%</b>
Employees (end of period)	<b>15,027</b>	<b>10,617</b>	<b>39%</b>

(\*) Includes overheads

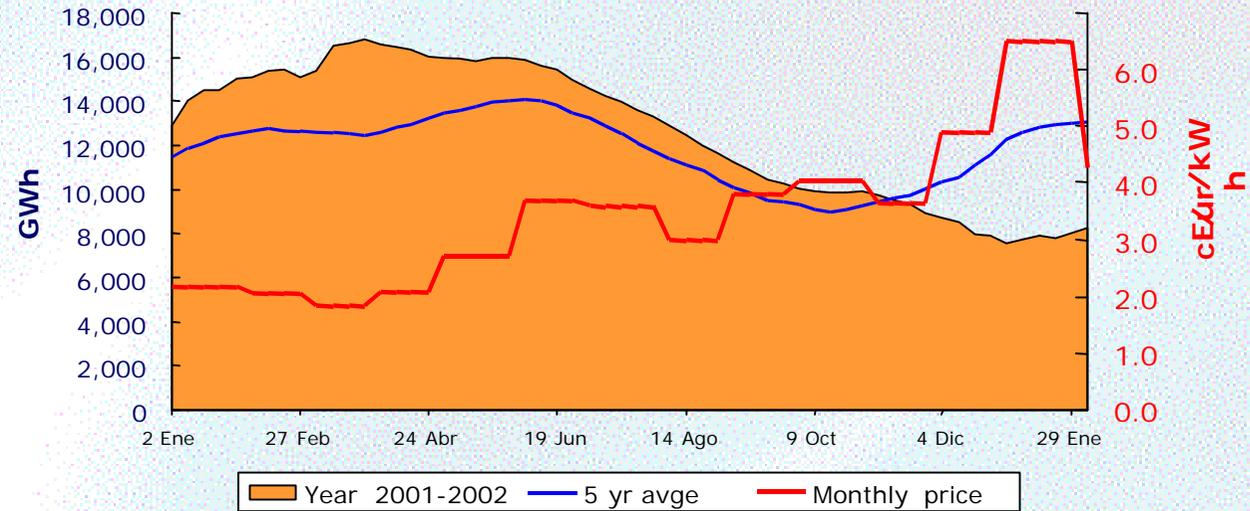
# Low Hydraulic Reserves Have Resulted in Higher Prices



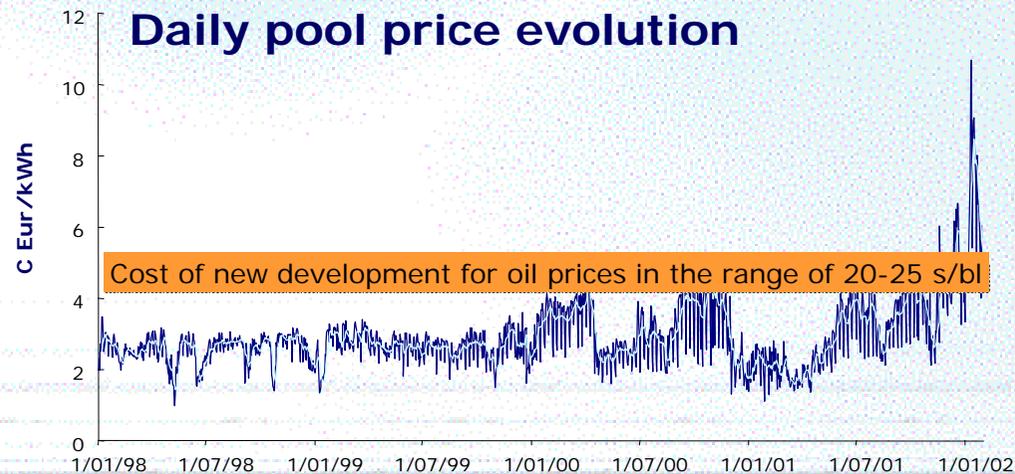
The low reserve margin has resulted in a higher pool price volatility

Pool prices have moved towards levels where CCGTs become profitable

### Reservoir levels: evolution 2001-2002



### Daily pool price evolution



# EGAR: Providing multiple services and products



- 3 pilot test successfully completed in 2001

- Coverage of needs
  - Wide and growing offer of home services/products
  - Highest service quality

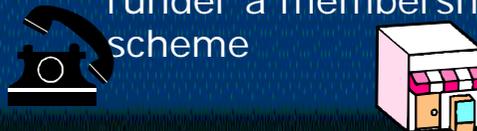


- Guarantee of brand
  - Supported by Endesa
  - Guaranteed service quality
  - Guaranteed prices and terms



- Global provider of services and products for the home

- Comfort and convenience
  - Multiple relationship channels
  - Purchase of individual products, packaged or under a membership scheme



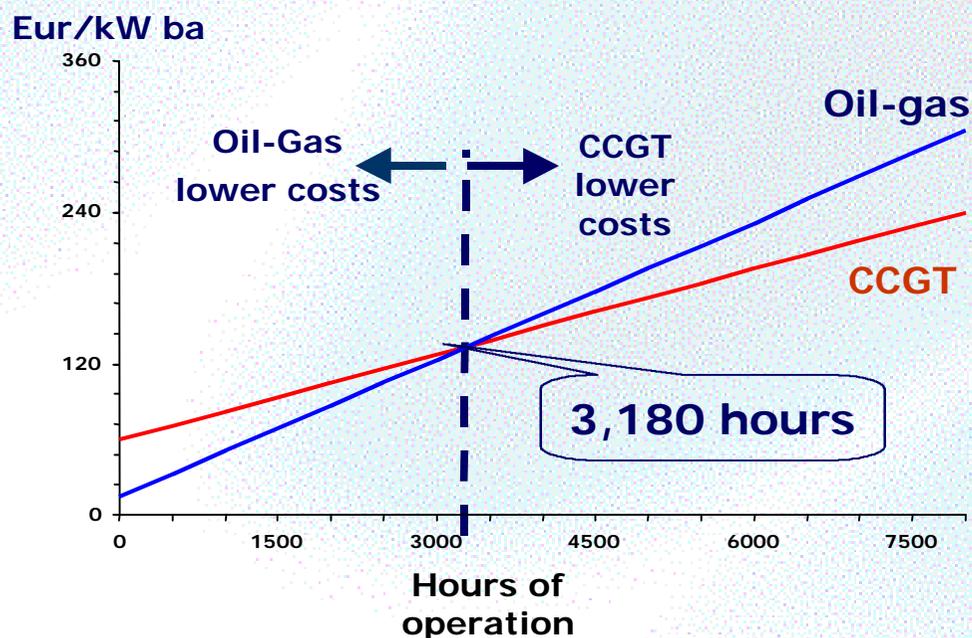
- Global customer management
  - Single phone number
  - Personalized service
  - Benefits of multiple service purchase
  - Single bill



# CCGTs will improve profitability of domestic business



## Plant costs by hours of operation

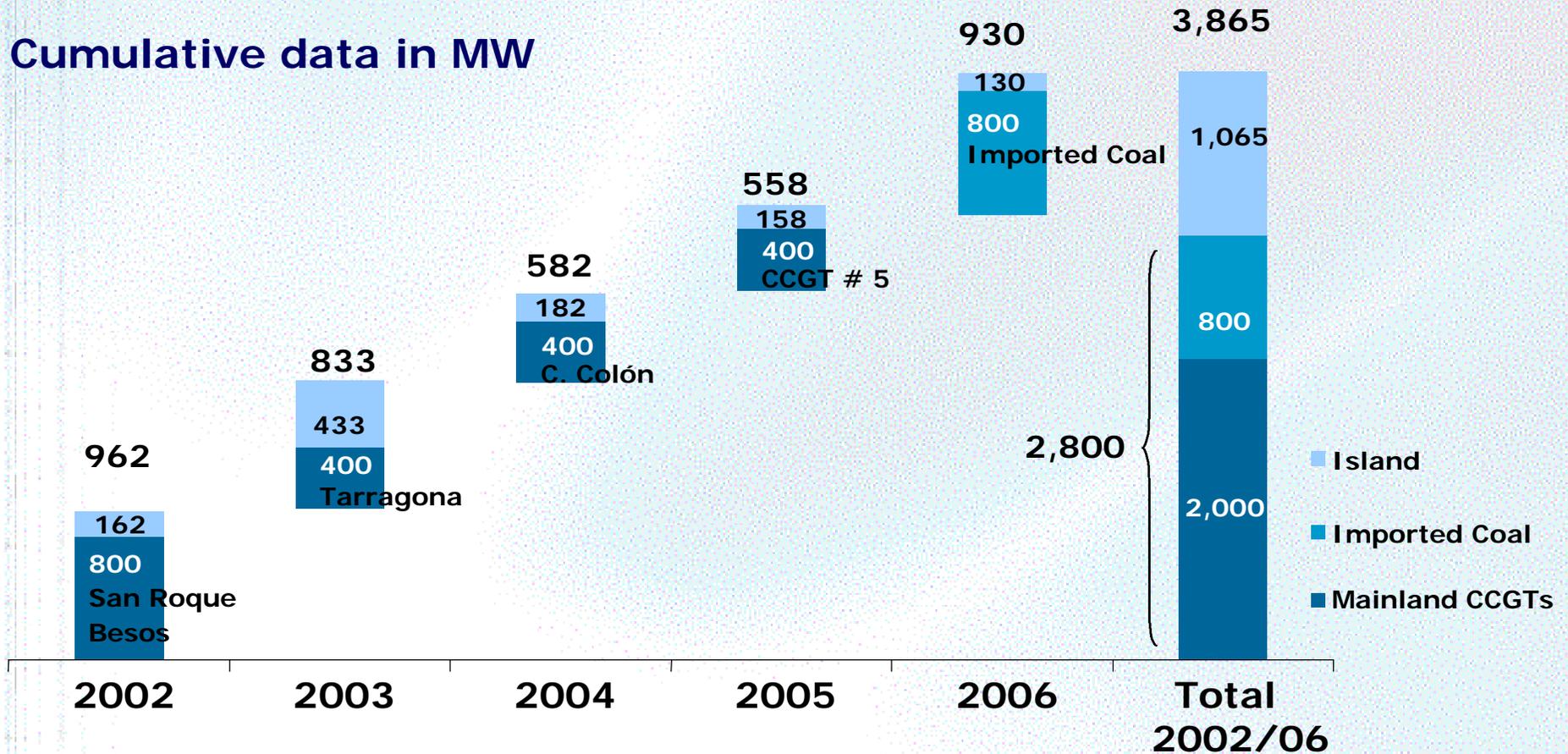


CCGTs will replace obsolete oil-gas plants as their total costs are lower as long as they operate for more than 3,000 hours a year. However, coal plants will still maintain their position in the merit order

# Endesa's capacity additions in Spain



## Cumulative data in MW

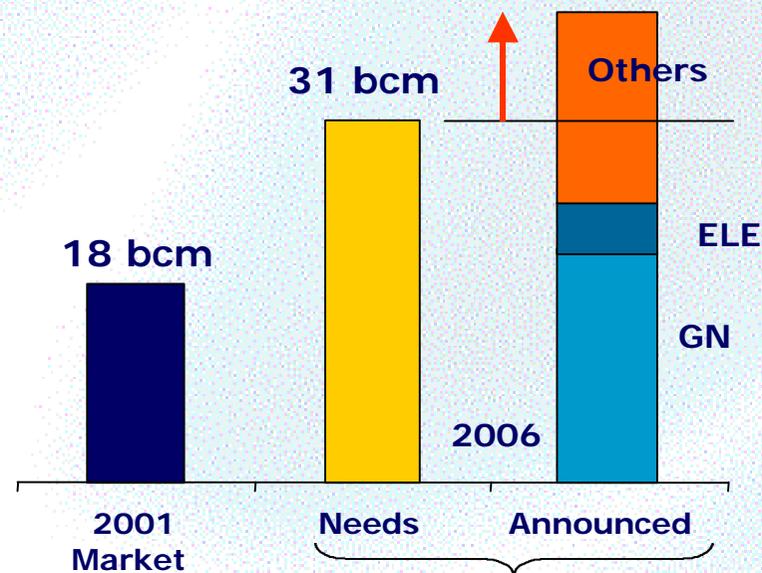


2002/06 Expected closures: 2,000 MW  
 Expected New Capacity 3,865 MW in new technology  
 No new divestments expected

# Endesa's gas supply: competitive and flexible conditions



Spain: no foreseeable risk of unavailability in the mid-term

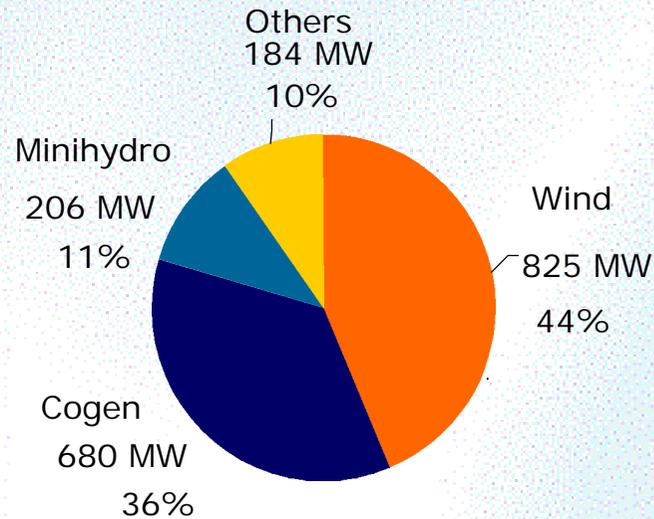


- Total volume of contracts announced by competitors well above expected demand
- Likely oversupply in the market
- Mid-term target: maintain flexibility in supply to avoid risk of purchase contract volumes in excess of needs

# Co-generation and Renewables

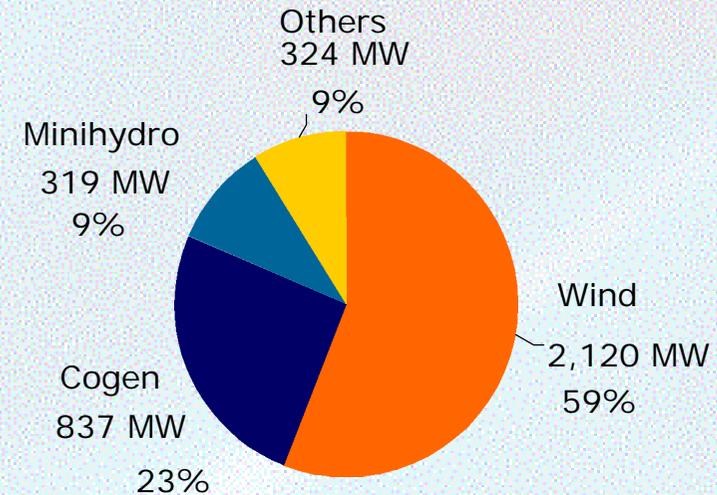


2001



**Total: 1,895 MW**

2006E



**Total: 3,600 MW**

(\*) Capacity in operation and under construction

- Endesa designs and markets wind-powered generators with its own technology (660, 800 and 1,320 kW).
- Investment criteria:
  - IRR > 10%
  - Shareholders' return > 18%

# SNET: Examples of Knowledge & Best Practice Transfer



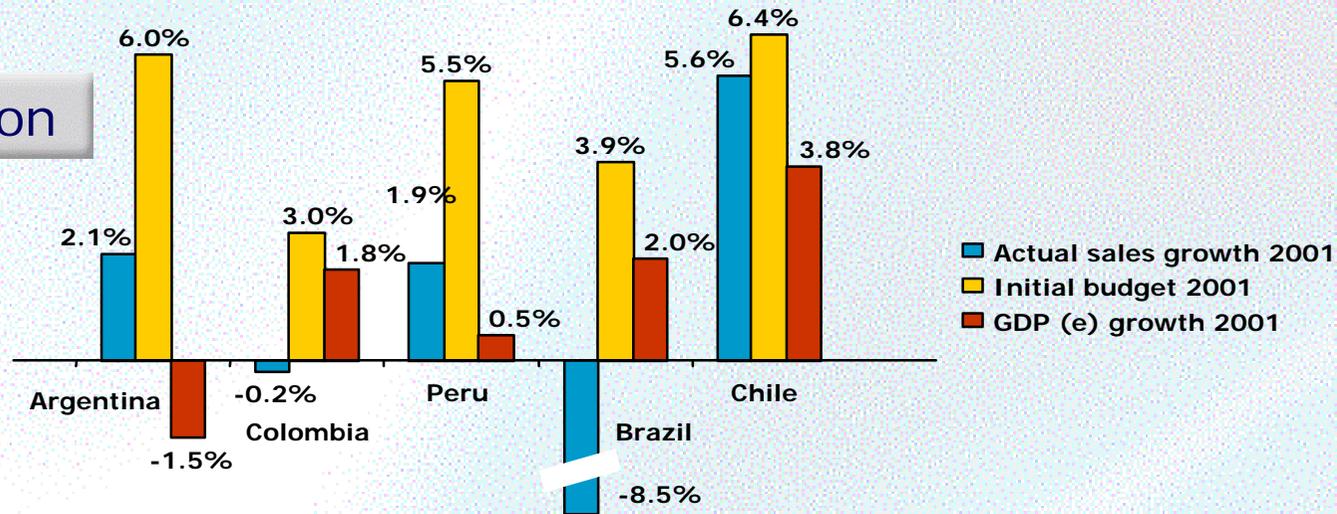
- O&M and TPM (Total Productive Maintenance)
  - **60% reduction in total maintenance hours per year**
- Reduce overtime
- Centralised purchases and renegotiation of supply contracts
- Workforce reduction
- Coal + fuel purchases; Coal Stocks
  - **Service contract with Carboex (wholly- owned subsidiary of Endesa with a prominent position in the imported coal and liquid fuel markets). Expected to reduce purchasing costs via discounts for high volume purchases**
  - **Transferal of Endesa best practices: improved logistics, improved stock management,...**
- Yield
  - **Auxiliary unit consumption optimization, homogeneous specific cost calculations, technical minimum plant operation reduction.**
  - **Plants dispatched following Endesa's best practice**
- Supply: **Commercial strategy roll-out to obtain 3% market share of eligible customers**
- Transferring best practices to SNET

# Latin America: a tough environment

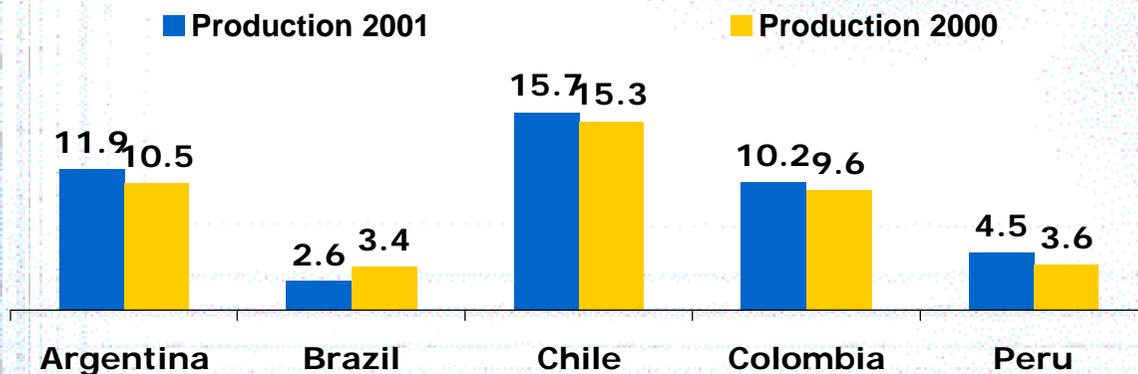


- Demand Growth despite weaker economy and Brazilian rationing

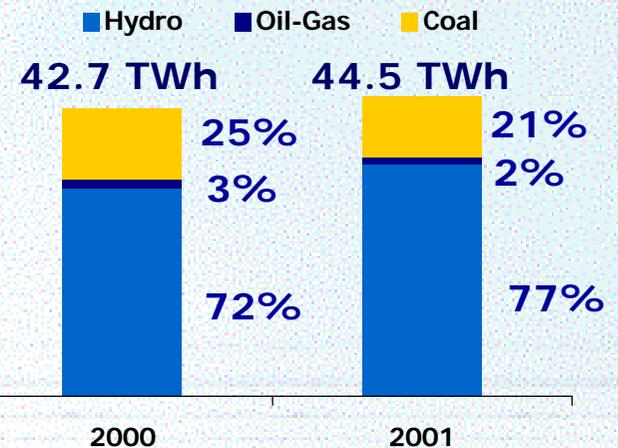
## Distribution



## Generation (TWh)



## Fuel- Mix



# Argentina: outcome of crisis still uncertain

2002 Macro Scenario



- Negotiations with authorities under way to compensate for tariff freeze and de-dollarisation.
- Additional risks from new conditions:
  - Lower revenues as tariffs are reset in AR\$
  - Foreseeable increase in bad debt

	Endesa budget assumptions	Sensitivity to worse conditions
GDP	-7.0	-10.0
Exchange rate (US\$/Peso)	2.0	2.5
Inflation	50%	50%
Demand Edesur	-3.6%	-3.6%
Bad debts (% Revenues)	1.4%	3.0%



**Impact on  
Net Income  
Eur 40 M**

# Brazil: compensations for rationing and new structural reforms



## ARTE: agreement with authorities

- Dec 2001: compensation agreed to distributors for rationing-related losses and setting a new methodology for distribution tariff adjustment (Parcela A)

## ARTE compensation for ENDESA's distributors

(R\$ Mn)	ARTE	Econ. Interest
Cerj	184	59%
Coelce	151	45%

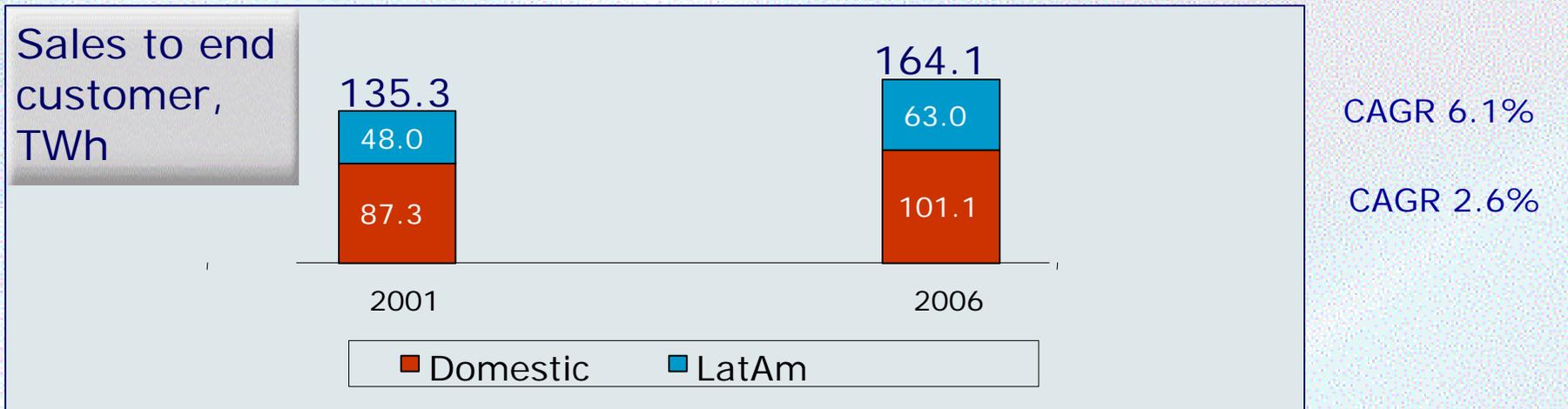
## Latest developments:

- Power rationing is ending on March 1st.
- Revitalisation Plan announced: Positive initiatives but still regulatory uncertainties

## Endesa's response:

- Announced 310 MW CCGT in Fortaleza (Coelce)
- Delay of new acquisitions

# Activity Levels Electricity Business





# **Endesa 2001**

## **Focus: Core & Value**

**Analyst presentation**  
**Madrid, 27 february 2002**