



Asesores

Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Verification Report

Introduction

We have been asked by ENDESA to carry out an independent verification of certain information contained in its 2003 Sustainability Report, the preparation of which is the responsibility of ENDESA management. Details are included in the following section.



KPMG's responsibility and commitment is to prepare conclusions on the consistency and reliability of data included in the abovementioned report, on the basis of the verification work and scope detailed below.

Verification work and scope

No legal provisions or generally accepted standards exist for the preparation and verification of sustainability reports. As a result, the verification carried out by KPMG was based on planning and performing audit protocols to enable us to conclude as to the consistency and reliability of the figures published.

Furthermore, sample analytical techniques were applied to significant and/or relevant indicators and interviews held directly with ENDESA personnel. Internal and public information in the countries in which ENDESA operates was also reviewed.

The scope of our verification covered the following:


- Indicator preparation systems determined as core by the 2002 version of the Global Reporting Initiative's Sustainability Report Preparation Guide.
- The accuracy and coherency of economic, social and environmental data published in the 2003 Sustainability Report and marked with the symbols  and . To achieve this objective, we verified written evidence supporting the aforementioned data, using secondary sources. The verification of economic data was based on a thorough comparison with information published in ENDESA's Annual Report for 2003, which was provided to us. Our verification work provides a limited level of confidence, as is characteristic in first verifications of non-financial reports.
- The 2002 Sustainability Report, in relation to the representative nature of information concerning the environmental impact of ENDESA's activity, interest groups and the Company in general.



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Reg. Mer. Madrid, T. 14.972, F. 93, Sec. 8, H. M-249.490, Inscrp. 1.ª
N.I.F. B-62499058

Conclusions

During the implementation of the agreed procedures we observed no incidents indicating significant differences or omissions with regard to the information marked in the Sustainability Report with a .

Furthermore, no anomalies arose during the comparison of the financial information published in the Sustainability Report marked with a  with ENDESA's Annual Report, provided to us by the Company.

Recommendations

The information published indicates improvement on the prior year in the processing and consolidation of data relating to ENDESA's sustainable development. We recommend the Company maintain its commitment to enhance its control systems to ensure the integrity and reliability of such information.

In this context, our recommendations to ENDESA are as follows:

- Continue extending the scope of the data published to include the Company's entire consolidation parameter, particularly in relation to social dimension indicators.
- Enhance, to the extent possible, the automation and standardisation of information collection processes for social and environmental indicators.

KPMG ASESORES, S.L.


Julian Martín Blasco

12 February 2004



1. ENDESA's international presence

ENDESA carries out its activities through a large number of companies which operate in eleven countries in Europe, Latin America and North Africa.

In several of these countries, such as Spain, Chile, Peru, Argentina and Colombia, it is the main electricity utility.

At present it has an installed capacity of 41,836 MW. In 2003, it produced 159,558 GWh of power and supplied 161,499 GWh of electricity to 21 million customers.

2. ENDESA's electricity business in 2003

2.1. Electricity business in Spain

ENDESA is the Spanish electricity utility with the highest installed capacity. ENDESA's generating facilities together account for a total installed capacity of 22,643 MW, of which 21,602 MW relate to hydro-electric, fossil-fuel and nuclear power plants and 1,041 MW to cogeneration and renewable energy facilities.

Of the aforementioned 21,602 MW, 18,081 MW are in the mainland electricity system and the remaining 3,521 MW are in the Balearic Islands, the Canary Islands, Ceuta and Melilla.

ENDESA in Europe and North Africa in 2003



These facilities as a whole have a generating capacity that is more than sufficient to meet the demand in the Company's markets, are safeguarded from the effects of the sharp fluctuations in rainfall typical in Spain and have a structure based on a suitable mix of technologies: 29% coal-fired plants, 25% hydroelectric plants, 17% nuclear plants, 24% conventional fuel-oil plants and 5% gas combined-cycle units.

In 2003 these facilities accounted for a total output of 95,211 GWh, up 3.7% from 2002. Of this amount, 92,348 GWh were generated by hydroelectric, fossil-fuel and nuclear power plants and 2,863 GWh by units based on cogeneration and renewable energies.

ENDESA has a 42.6% share of the electricity generation market in Spain.

ENDESA's electricity business in Latin America in 2003



Electricity produced by ENDESA (GWh)

	2003	2002	% Var
Hydroelectric	11,566	7,914	46.1
Nuclear	27,693	28,391	-2.5
Spanish coal	23,795	25,880	-8.1
Imported coal	11,561	11,185	3.4
Fuel-oil-gas	1,886	3,034	-37.8
Combined cycles	3,457	1,734	99.4
Total mainland	79,958	78,138	2.3
Nonmainland	12,390	11,238	10.3
Total	92,348	89,376	3.3
Cogeneration and renewable	2,863	2,468	16.0
Total	95,211	91,843	3.7

In 2003 ENDESA sold a total of 81,849 GWh to the wholesale generation market, representing a 40.5% share in physical terms. 80,542 GWh of this electricity were produced at ENDESA facilities and the remainder was acquired from third parties.

With regard to electricity supplied to end customers, in 2003 ENDESA sold a total of 90,855 GWh to over 10.48 million customers in the Spanish electricity market, representing a total share of 44.5% of this market during the year, the highest in the industry.

These sales included 67,701 GWh of electricity distributed in the mainland and nonmainland regulated market, i.e. to customers supplied at a regulated rate, representing a 7.8% growth compared with 2002.

In this market, the Company operates under five trade names: Fecsa ENDESA (Cataluña), Sevillana ENDESA (Andalucía and the southern region of Extremadura), Gesa ENDESA (Balearic Islands), Unelco ENDESA (Canary Islands) and Erz ENDESA (Aragon and the province of Soria).

ENDESA's electricity sales in the regulated market (GWh)

	2003	2002	% Var
Aragon	4,654	4,129	12.7
Cataluña	26,987	25,519	5.8
Balearic Islands	4,760	4,280	11.2
Andalucía and Extremadura	24,254	22,436	8.1
Canary Islands	7,046	6,441	9.4
Total ENDESA	67,701	62,805	7.8

In 2003, ENDESA supplied electricity to approximately 10.5 million customers, 2.2% more than in 2002, in the following regions of the Spanish regulated market.

Total number of ENDESA customers in the regulated market

	2003	2002	% Var
Aragon*	813,196	738,543	10.1
Cataluña	3,875,908	3,876,535	0.0
Balearic Islands	598,391	584,750	2.3
Andalucía and Extremadura	4,219,637	4,105,419	2.8
Canary Islands	976,138	948,589	2.9
Total ENDESA	10,483,270	10,253,836	2.2

* Includes AEE, S.A. customers

In the deregulated Spanish market, ENDESA sold 23,154 GWh in 2003, 9% more than the electricity sold in this market in 2002. ENDESA operates in this market through ENDESA Energía.

It is clear that, due to its solid customer base and broad, diversified production base, ENDESA occupies a leading position with a well-defined competitive edge in the Spanish electricity industry and is the most important company as regards coverage of electricity needs in the mainland and islands market.

2.2. Electricity business in other European countries and North Africa

ENDESA is currently present in the European electricity markets it had targeted in its corporate strategy, mainly Italy, Portugal and France.

Specifically, ENDESA is present in Europe in the electricity generation business through subsidiaries in Italy, Portugal and France and in the retailing business through sales in the deregulated markets of Portugal, France, Italy, Germany, Andorra and Belgium. It also manages energy in deregulated markets and international exchanges with Spain's neighboring countries and has a presence in the Moroccan electricity market.

At 2003 year-end, ENDESA's European investees outside Spain had a total installed capacity of approximately 9,394 MW, of which the Company controls the 5,860 MW relating to ENDESA Italy because of its holding in this company.

ENDESA Italia, the third most important electricity generator in Italy, produced 17,867 GWh in 2003, 1.8% up from 2002. The company sells 78% of its electricity to the Italian company ENEL Distribución and the remainder to customers in the deregulated market.

ENDESA has a 51% holding in ENDESA Italia. However, in December 2003, the Company and SCH, another of the Italian company's stockholders, reached an agreement whereby the former would gain effective control of the voting rights held by the latter in ENDESA Italia. As a result, ENDESA now controls 85% of the Italian company's voting rights, leading to the full consolidation of ENDESA Italia's results with those of ENDESA in accordance with IAS and US GAAP.

ENDESA Italia is carrying out an extensive repowering program at its fossil-fuel power plants which will convert them to more efficient technologies from the energy and environmental perspectives, mainly through their transformation to combined cycles, and will significantly increase their annual electricity output. In 2003 this repowering program was completed at the Ostiglia and Fiume Santo power plants.

In France, ENDESA has a 30% holding in Snet, an electricity generator which has 8 coal-fired power plants with a total capacity of 2,604 MW. ENDESA also has a 25% direct holding in Soprolif, a company which owns a 250 MW boiler.

In Portugal, ENDESA is present in the electricity generation business through its 35% holding in Tejo Energía, a company which owns a 600 MW coal-fired power plant.

In the supply business, in 2003 the Company sold approximately 12,318 GWh in six European countries to 618 supply points. Currently, the retailer ENDESA Energía sells approximately 1,200 GWh per year in France, 1,700 GWh in Portugal, 370 GWh in Germany and 250 GWh in Andorra. The remaining 10,177 GWh relate to sales made through the producers ENDESA Italia or Snet (France).

Additionally, in 2003 ENDESA and ASM Brescia formed a joint venture called Ergon Energía to retail electricity in the Italian deregulated market.

Lastly, in North Africa, ENDESA has a direct holding of 18% in Lydec, the company which distributes water and electricity in Casablanca. Also, it has a 32% holding in Énergie Électrique de Tahaddart,

which has been awarded the contract to build and operate a 400 MW combined-cycle fossil-fuel power plant.

2.3. Electricity business in Latin America

In Latin America, ENDESA has reached the size targeted by its corporate strategy, providing it with a solid business platform.

It is the biggest private-sector electricity company in Latin America and the leading electricity utility in Chile, Peru, Colombia and Argentina. It is also present in the Brazilian and Dominican electricity markets and is participating in the development of an electricity interconnection system which will link six Central American nations.

ENDESA's presence in Latin America is embodied, on one hand, in the 60.62 holding it owns in the Latin American group Enersis and, on the other, by the holdings acquired directly in various companies of the region.

In these countries, ENDESA produces, transmits, distributes and supplies electricity. Its Latin American electricity subsidiaries jointly own 13,333 MW of installed capacity. In 2003 they produced 46,480 GWh and sold 49,526 GWh to over 10.4 million customers, representing increases of 8.9% and 4%, respectively, compared with 2002.

The detail of ENDESA's Latin American generating facilities, by country, at 2003 year-end, is as follows:

ENDESA's installed capacity in Latin America* (MW)

	2003	2002	% Var
Chile	3,763	3,935	-4.4
Argentina	4,492	4,444	1.1
Colombia	2,589	2,754	-6.0
Peru	1,458	1,474	-1.1
Brazil **	1,031	721	43.0
Total	13,333	13,328	—

* The data relate only to fully consolidated companies. Accordingly they do not include the 781 MW of the Atacama power plant (Chile) or the 71 MW owned by Cepam (Dominican Republic).

** Includes the Fortaleza combined-cycle power plant (310 MW), which came into service in December 2003.

In 2003 the installed capacity decreased slightly in Chile, mainly due to the sale of the Canutillar hydroelectric power plant (172

MW), and in Colombia, due to the final dismantling of the last 165 MW of the Casalaco power plant chain. The installed capacity grew in Brazil, due to the entry into service of the Fortaleza power plant (310 MW) in December 2003.

ENDESA's Latin American investees generated a total of 46,480 GWh of electricity in 2003, representing an 8.9% increase from 2002.

This increase was mainly due to the high level of use of the region's hydroelectric power plants as a result of good rainfall conditions and the sharp increase in production at the Argentine fossil-fuel power plants.

ENDESA's electricity generation in Latin America* (GWh)

	2003	2002	% Var
Chile	16,524	16,285	1.5
Argentina	11,208	8,600	30.3
Colombia	10,794	10,699	0.9
Peru	4,683	4,404	6.2
Brazil	3,271	2,709	20.7
Total	46,480	42,697	8.9

* The data relate only to fully consolidated companies. Accordingly they do not include the production of the Atacama power plant (Chile) or that of Cepm (Dominican Republic).

In the area of electricity sales, in 2003 ENDESA's Latin American subsidiaries distributed 49,526 GWh of electricity, 4% more than in 2002.

This growth was mainly due to the recovery of demand in Brazil after the end of the period of rationing applied in previous years to cope with the drought, and to the increases in consumption in Chile (6.3%) and Argentina (4.1%), which were higher than those envisaged at the beginning of the year.

ENDESA's electricity distribution in Latin America (GWh)

	2003	2002	% Var
Chile	10,518	9,895	6.3
Argentina	12,656	12,159	4.1
Colombia	9,254	9,029	2.5
Peru	3,968	3,872	2.5
Brazil	13,130	12,653	3.8
Total	49,526	47,608	4.0

In the five Latin American countries where ENDESA distributes electricity, it had a customer base of approximately 10.5 million at 2003 year-end, up 1.8% from 2002 year-end.

ENDESA customers in Latin America (in thousands)

	2003	2002	% Var
Chile	1,341	1,620	-17.2
Argentina	2,117	2,090	1.3
Colombia	1,972	1,911	3.2
Peru	892	883	1.0
Brazil	4,160	3,788	9.8
Total	10,482	10,292	1.8

There were fewer customers in Chile due to the sale of the subsidiary Río Maipo in 2003. Disregarding this fact, the total number of customers in Latin America would have increased 5%.

3. Other energy businesses

3.1. Natural gas

ENDESA is present in the four markets for natural gas in Spain: supply to customers in the deregulated market, distribution and supply to customers in the regulated market, construction of transmission infrastructures and lastly, LNG receiving, storage and regasification projects.

In 2003 ENDESA sold 6,926 GWh of gas to 2,110 customers in the deregulated market, 60.1% more than in 2002. At 2003 year-end, the Company had contracts for 9,024 GWh with 8,047 customers, confirming its growth projections for this business.

In the regulated market, the Company owns holdings in six Spanish and two Portuguese companies, which supplied over 6,500 GWh in 2003 to approximately 534,000 consumers in the Iberian market, representing an increase of 9.5% with respect to 2002.

In the Spanish regulated market, ENDESA is currently present in seven Autonomous Communities and is licensed to distribute piped gas in over 150 municipalities. As of December 31, 2003, it supplied gas in Spain to 316,655 consumers and moved over 4,260 GWh. In the Portuguese regulated market, according to data as of November 30, 2003, it sold over 2,267 GWh of gas to 217,486 consumers.

These figures show increases of 11% and 19%, respectively, compared with 2002.

In 2003 the Company's combined-cycle power plants in Spain consumed 7,282 GWh.

Lastly, mention should be made of the Company's 5,308 km gas transmission and distribution network in the Iberian market and of its participation in LNG receiving, storage and regasification projects being executed in Galicia, the Valencia Autonomous Community and the Canary Islands.

3.2. Cogeneration and renewable energies

ENDESA is present in the cogeneration and renewable energies sector through ENDESA Cogeneración y Renovables (ECYR).

At the end of 2003, ENDESA had investments in cogeneration and renewable energy facilities with a total capacity of 2,068 MW, of which 1,858 MW were in service and 210 MW were under construction.

The total installed capacity in service or under construction included 1,475 MW relating to renewable energy facilities in Spain, 486 MW to cogeneration and waste treatment units, also in Spain, and 107 MW to cogeneration facilities in Portugal, Colombia and Mexico.

Since ENDESA has an average holding of 56% in these plants, 1,041 MW of capacity in service is attributable to it.

In 2003, these types of plants in which ENDESA has holdings produced a total of 5,486 GWh, of which 2,863 GWh were attributable to ENDESA based on its ownership percentage.

Of the total volume produced, 3,030 GWh came from renewable energy facilities, of which 1,819 GWh related to ENDESA. Of the total 2,456 GWh produced by cogeneration facilities, 1,044 GWh were attributable to ENDESA.

Among the renewable energies, wind power is the area in which the Company has the most significant presence. In 2003 the Company put into operation eight new wind farms with a total capacity of 184.05 MW. As a result, at year-end it had holdings in wind-

powered facilities with a total capacity of 922 MW in service and 201.5 MW under construction, giving it a 20% share of the Spanish market.

The Company also has solid waste, biomass, photovoltaic solar energy, mini-hydroelectric and cogeneration facilities.

ENDESA intends to make a strong effort to develop new capacity in facilities which harness renewable energies. As part of its new capacity program, in the period 2004-2008 it will develop a total of 2,089 MW based on renewable energies and another 29 MW based on other associated technologies.

These facilities will assist the Company in obtaining an efficient degree of diversification in its production mix and in reaching its targets for the reduction of greenhouse gas emissions.

4. Telecommunications and other services

ENDESA operates in business areas outside the energy industry which contribute value to its core business, these being mainly telecommunications, power line communications and other services.

ENDESA has a 32.89% holding in the Spanish group Auna Operadores de Telecomunicaciones, S.A. which provides wireline telecommunications and wireless telephony services in Spain. Auna currently has approximately 10 million customers, 8.2 million of whom are serviced by its wireless telephony subsidiary Amena, and 1.8 million by Auna Telecomunicaciones.

ENDESA also has a 10% stake in Euskaltel, a wireline telecommunications operator in the Basque Country, a 50.55% holding in Netco Redes, which manages the optical fiber cables on high- and medium-voltage power lines in Spain, and is the sole owner of Enditel, a company which provides engineering services in the telecommunications and other industries.

Outside Spain, it owns all the shares of the Chilean wireless telephony company Smartcom, which has 1.2 million customers.

Additionally, in 2003 ENDESA continued to develop PLC (Power Line Communications) technology which allows voice and data to be trans-

mitted via low- and medium-voltage power lines. In this connection, it joined forces with Auna in November 2003 and January 2004 to launch supervised market campaigns in Zaragoza and Barcelona, respectively, to ascertain the market's level of interest in PLC.

Lastly, ENDESA provides other support services (telecommunications systems, procurements, commercial systems, etc.) to assist its subsidiaries and third parties with their operations.

5. Major companies of the ENDESA Group

ENDESA Generación manages the generating and mining facilities in Spain so as to compete in optimum conditions as regards quality, quantity and price in the wholesale electricity production market.

ENDESA Red manages in Spain, through its subsidiaries ENDESA Distribución Eléctrica and ENDESA Operaciones y Servicios Comerciales, the electricity transmission and distribution networks and power sales to customers who receive their electricity at the rates set by the Spanish government. It also provides commercial support to ENDESA's energy companies.

ENDESA Energía supplies energy to large customers in the deregulated market of Spain and other European countries, supplying power and other high value-added energy services.

ENDESA Internacional manages ENDESA's presence in the Latin American energy market mainly through Enersis, the major private-sector electricity group in Latin America in which ENDESA has a controlling interest with a holding of 60.6%.

ENDESA Diversificación manages the Company's presence in the cogeneration, renewable energies, water, telecommunications and environmental industries.

ENDESA Servicios caters for the Company's in-house needs in the telecommunications, IT systems and control areas, manages supplies, and markets these services to third parties. This company includes the Environment and Sustainable Development Department, which manages ENDESA's activities in these fields at corporate level.

ENDESA Italia produces and sells electricity in the Italian market, in which it is the third most important generator. ENDESA has a 51% holding in ENDESA Italia, although it effectively exercises 85% of its voting rights under an agreement with another of the company's stockholders.



Biogeographical heritage conservation project. San Ignacio de Huinay (Chile)

The principles that underlie the corporate governance of ENDESA, S.A. are established in:

- The Bylaws of the Company which, together with the mandatory legal requirements, contain the principles that guide the governance of the Company and the bodies composing it: the Stockholders' Meeting, the Board of Directors and the Executive Committee.

Noteworthy among these principles are transparency, respect for stockholders' rights, the duty of care and loyalty of the directors and the establishment of a set of rules for the functioning of the corporate bodies that, with respect to legality, encourages stockholder participation in decision-making processes.

- The Stockholders' Meeting Regulations, which promote the participation of the stockholders in the Stockholders' Meeting by suitably arranging for mechanisms to provide them with information and encourage them to contribute to decision-making in the Company by exercising their rights to participate in debates and to vote.
- The Board Regulations, which regulate the organization and functioning of the Board of Directors in accordance with Article 36 of the Bylaws. They are based on three concepts: promoting transparency in the conduct of the governing bodies

of the Company, fostering effective business management and the assuming of responsibilities by Senior Management and the Board of Directors to the stockholders of the Company.

- The Regulations on Conduct in the Securities Markets, which determine the rules of conduct that must be followed by the persons to whom they apply in the transactions they perform, with a view to contributing to their transparency and to the protection of investors. They are based on the principles of impartiality, good faith, placing general interests before one's own and care and diligence in using information and acting in the markets.
- The Rules on Corporate Integrity, consisting of the Charter Governing Senior Management, the Charter Governing Executives and the Employees' Code of Conduct, which establish the principles that are to guide their actions: ethical conduct, professionalism and confidentiality. They also establish the limitations and define the incompatibilities arising from their status as executives and senior managers.

All these documents are available on the Company's website: "www.endesa.es"

1. Company ownership structure

The Company was incorporated on November 18, 1944, under the name Empresa Nacional de Electricidad, S.A., by virtue of a public deed executed in the presence of the Madrid Notary Rafael López de Haro y Moya. Subsequently, it changed its name to ENDESA, S.A. by a resolution of the Stockholders' Meeting held on June 25, 1997. It is registered at the Madrid Mercantile Registry, in Volume 323, Sheet 1, Page 6405.

ENDESA, S.A. has its registered office and headquarters at calle Ribera del Loira, 60, 28042 Madrid, and its employer identification number (EIN) is A-28/023430.

In accordance with Article 2 of the Bylaws:

"1. The Company's corporate purpose is:

- a) The electricity business in its various industrial and commercial activities.*
- b) The exploitation of all kinds of primary energy resources.*
- c) The provision of industrial services, and, in particular, those relating to telecommunications, water and gas, as well as those which are preparatory or supplementary to the activities included in the corporate purpose.*
- d) The management of the Business Group, consisting of holdings in other companies.*

2. The Company will engage, in Spain and internationally, in the activities constituting its purpose, either directly or through ownership interests in other companies."

ENDESA was subject to the system of prior administrative authorization, in accordance with Royal Decree 929/1998, as amended by Royal Decree 1113/1999 on the Application of the System of Prior Administrative Authorization to "ENDESA, Sociedad Anónima" and to certain companies in its Group as a result of the application of Law 5/1995 on the Legal Arrangements for Disposal of State Holdings in Certain Enterprises.

Under this system, corporate acts and resolutions to acquire directly or indirectly shares or securities of ENDESA and of certain subsidiaries that might directly or indirectly give entitlement to subscribe or acquire at least 5% of the capital stock of ENDESA or 10% of that of certain subsidiaries required prior authorization. This system also applied to the disposal or encumbrance of shares held

by ENDESA in any of the other companies of its Group, as well as to resolutions for the voluntary dissolution, spin-off or merger of ENDESA and of the other companies of its Group.

On December 21, 2000, the European Commission filed an application at the European Court of Justice against the Kingdom of Spain seeking a declaration that Law 5/1995 on the Legal Arrangements for Disposal of State Holdings in Certain Enterprises contravenes EU law, insofar as it establishes the need for prior administrative authorization for certain acts in relation to privatized enterprises. The Commission also requested the same declaration for the Royal Decrees implementing that Law concerning ENDESA, S.A. and other Spanish companies.

In its judgment of May 13, 2003, the Court held that both Articles 2 and 3, Subarticles 1 and 2, of Law 5/1995 and, among others, Royal Decree 929/1998, as amended by Royal Decree 1113/1999, on the Application of the System of Prior Administrative Authorization to ENDESA, Sociedad Anónima contravened EU law because they give the administrative authorities particularly broad discretion which can be exercised prior to any corporate act.

However, the Court acknowledged the possibility of the existence of certain systems of administrative authorization, although they must be proportionate to the aim pursued, inasmuch as the same objective could not be attained by less restrictive measures, in particular a system of declarations ex post facto and must be based on objective, nondiscriminatory criteria which are made known in advance to the enterprises concerned, and all persons affected by a restrictive measure of that type must have a legal remedy available to them.

Spanish legislation was amended to bring it into line with EU law by Law 62/2003 on Tax, Administrative, Labor and Social Security Measures, which introduced amendments to Law 5/1995 in Additional Provision Twenty-five, Subprovision Eleven, which introduces Transitional Provision Three with the following wording:

"1. With effect from January 1, 2004 and through June 8, 2007, the following companies are subject to the system established in this Law, in particular as regards the system of notification, procedure and decision-making criteria of the competent body:

- a) ENDESA, Sociedad Anónima.*
- b) ENDESA Generación, Sociedad Anónima.*
- c) ENDESA Distribución Eléctrica, Sociedad Limitada.*

2. *Corporate acts and resolutions to acquire directly or indirectly, including through third-party fiduciaries or interposed persons, shares of 'ENDESA, Sociedad Anónima' and of the companies included in the preceding Subprovision or other securities, instruments or rights that may give a right, directly or indirectly, of subscription or acquisition of those shares, if their result is the holding of at least 10% of the capital stock of 'ENDESA, Sociedad Anónima' or of the other companies listed in the preceding Subprovision, are subject to the system established in this Law, provided that they produce their effects in the Spanish market.*

Notwithstanding the foregoing, as a result of their being listed companies, merely financial acquisitions not for the purpose of participating in the control and/or management of the entities mentioned in Subprovision 1 are excluded from the provisions of the preceding paragraph.

Corporate acts and resolutions to dispose of or encumber, in any way and by any means, shares or securities representing the capital stock owned by 'ENDESA, Sociedad Anónima' in any of the other companies listed in the preceding Subprovision are also subject to the system established in this Law. For these purposes, any other securities that may give a right, directly or indirectly, of subscription or acquisition of the shares shall be equated with shares.

3. *Notwithstanding the foregoing, the corporate resolutions of the companies included in Subprovision 1 for voluntary dissolution, spin-off or merger shall be notified merely by means of a communication to the same body that is competent for the purposes established in the preceding Subprovisions."*

Capital stock

As of December 31, 2003, the capital stock of ENDESA, S.A. amounted to €1,270,502,540.40 and was fully subscribed and paid. The amount has not varied in the last three years and is currently made up of 1,058,752,117 shares each with a par value of €1.20, all belonging to the same class, and with the same voting and dividend rights.

With respect to the capital stock, the Stockholders' Meeting of the Company, held on April 13, 2000, adopted a resolution to delegate authority to increase capital stock to the Board of Directors, although this authority has not been exercised.

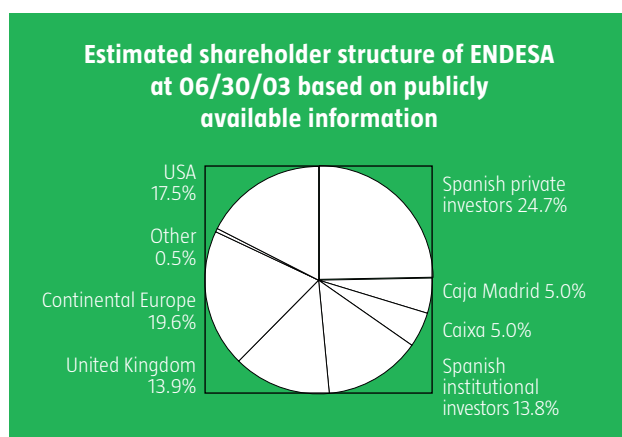
It should also be mentioned that ENDESA, S.A. has not issued any convertible debt securities, exchangeable debt securities or debt securities with warrants, although it should be noted that the

Stockholders' Meeting held on May 10, 2002, adopted a resolution delegating to the Board of Directors the authority to issue fixed-income securities convertible or not convertible into shares of the Company.

The shares of ENDESA, S.A. are represented by book entries and are registered in the Central Register of Iberclear, the entity responsible for the accounting record of the shares. They are listed on the Spanish Stock Exchanges, on the New York Stock Exchange and on the Off-Shore Stock Exchange in Santiago, Chile, and they form part of the following stock market indexes: IBEX 35, Eurotop 100, DJ Eurostoxx 500, DJ Eurostoxx Utilities and DJ Stoxx 600 Utilities.

On the New York Stock Exchange, the shares are listed in the form of American Depositary Shares (ADSs), represented by American Depositary Receipts (ADRs), on a one-for-one basis and, as of December 31, 2003, which numbered 45,381,832. They form part of the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones Stoxx Sustainability Index (DJSI STOXX). Citibank, N.A. is the financial institution responsible for the matching of balances or deposits of the securities placed in that market.

The analysis of the structure of the capital stock of ENDESA, S.A., using the information furnished by Iberclear as of May 14, 2003, for the last Annual Stockholders' Meeting and other sources for identifying stockholders, reveals the approximate geographical composition at that date shown in the following chart.



There are approximately 1.02 million ENDESA, S.A. stockholders, of which 48.5 percent are Spanish and 51.5 percent are from elsewhere in the world. Also, 24.7 percent of the stockholders are private investors and 75.3 percent are institutional investors.

Significant stockholders

In accordance with Royal Decree 377/1991 on the notification of significant holdings in listed companies, Caja de Ahorros y Monte de Piedad de Madrid and Caja de Pensiones de Barcelona have served notice that they hold, directly or indirectly, more than 5 percent of the capital stock of the Company.

	No. of Shares	% of Capital
Caja de Ahorros y Monte de Piedad de Madrid	53,043,481	5.010
Caja de Ahorros y Pensiones de Barcelona (1)	52,975,235	5.004

(1) 52,775,235 shares through Caixa Holding, S.A. and 200,000 through Caixa de Barcelona Seguros de Vida, Sociedad Anónima de Seguros y Reaseguros.

On March 26, 2003, the financial institution Santander Central Hispano, S.A. notified the Spanish National Securities Market Commission, as a declarant with respect to Chase Nominees Ltd., of a Significant Holding of 60,683,704 shares, equal to 5.732 percent of the capital stock of ENDESA, S.A.

Chase Nominees Ltd. is required to notify its holding in ENDESA, S.A. as a listed entity as a result of its participation as an interposed person (Article 3.1 of Royal Decree 377/1991) since it acts for the account of its customers, none of whom are in turn required to notify a significant holding in ENDESA, S.A. if regard is only had to the stockholding position the ownership of which Chase Nominees Ltd. has knowledge.

On June 3, 2003, Caja de Ahorros y Pensiones de Barcelona, "La Caixa," notified the Spanish National Securities Market Commission that, through Caixa Finance, B.V., it had issued bonds exchangeable for shares of ENDESA, S.A., with the guarantee of "La Caixa" and for placement in the European Institutional Market, except in Spain. The underlying securities in the issue are 52,975,235 shares of ENDESA, S.A. The bonds mature at three years, and holders can exercise the exchange option on or after August 11, 2003, and up to 9 days before maturity. The exchange price is €16 per share, with the issuer reserving the option to deliver an equivalent cash amount instead of shares of ENDESA, S.A.

Treasury stock

Pursuant to the resolution of the Stockholders' Meeting of June 19, 2003 and the authorizations granted by the Stockholders' Meetings on April 13, 2000, April 28, 2001 and May 10, 2002, and to facilitate the liquidity of trading at specific times, the Company performed various transactions with treasury stock, giving rise to the balances and amounts set forth in the following table:

€	12/31/03	12/31/02	12/31/01
Initial balance	143,562,239.02	210,346,915.10	60,628,186.60
Acquisitions	69,552,097.45	131,701,631.92	264,960,865.60
Sales	180,482,274.79	160,288,268.80	117,891,053.59
(Capital Losses) / Capital Gains	(4,430,071.09)	(38,198,039.20)	2,648,916.49
Final balance	28,201,990.59	143,562,239.02	210,346,915.10
% of capital stock	0.20	1.00	1.18

The total balance of treasury stock directly acquired by ENDESA was 2,089,661 shares as of December 31, 2003, equal to an amount of €28 million. As a provision of €10.6 million had been recorded, the net cost was €17.3 million.

Direct and indirect ownership interests of the members of the Board of Directors in the capital stock

The current directors of the Company hold the following shares personally or as nominees:

Director	Held Personally				Held as Nominees		Total	
	Direct	Ind.	Total	% of Capital	Number	% of Capital	Number	% of Capital
Manuel Pizarro Moreno	50,004	—	50,004	0.00472	—	—	50,004	0.00472
Rafael Miranda Robredo	7,258	—	7,258	0.00069	—	—	7,258	0.00069
Alberto Alonso Ureba	1	—	1	—	—	—	1	—
Miguel Blesa de la Parra	600	—	600	0.00006	53,043,481	5.01000	53,044,081	5.01006
Rafael Español Navarro	846	—	846	0.00008	—	—	846	0.00008
José M. Fernández Cuevas	1	—	1	—	—	—	1	—
José M. Fernández Norriella	1	—	1	—	—	—	1	—
José Fernández Olano	—	—	—	—	—	—	—	—
Rafael González-Gallarza Morales	3,301	—	3,301	0.00031	—	—	3,301	0.00031
Francisco Núñez Boluda	4,000	—	4,000	0.00038	—	—	4,000	0.00038
José Luis Oller Ariño	7,800	—	7,800	0.00074	—	—	7,800	0.00074
Francisco Javier Ramos Gascón	992	8,779	9,771	0.00092	—	—	9,771	0.00092
Manuel Ríos Navarro	3,889	3,520	7,409	0.00070	—	—	7,409	0.00070
José Serna Masiá	14,906	478	15,384	0.00145	—	—	15,384	0.00145
Total	93,599	12,777	106,376	0.01005	53,043,481	5.01000	53,149,857	5.02005

Relationships of a family, commercial, contractual or corporate nature

There are no relationships of a family, commercial, contractual or corporate nature between the holders of significant ownership interests and the Company, or among the holders of significant ownership interests themselves, except those with stockholder financial institutions in the ordinary course of business, conducted on an arm's-length basis.

2. Corporate bodies

The governing bodies of the Company are the Stockholders' Meeting, the Board of Directors and the Executive Committee.

Stockholders' Meeting

Articles 18 et seq. of Endesa's Corporate Bylaws regulate the organization and functioning of the Stockholders' Meeting. In this connection, the stockholders convened in a duly called Stockholders' Meeting decide by majority on matters specific to the competence of the Meeting. All stockholders are subject to the resolutions of the Meeting, including dissenting stockholders and those who have not participated in the Meeting.

On June 19, 2003, the Stockholders' Meeting of ENDESA, S.A., in compliance with the provisions of the Bylaws, approved its Reg-

ulations at the proposal of the Board of Directors of ENDESA, S.A., in order to facilitate stockholder participation at the Stockholders' Meeting.

The Regulations regulate, in conformity with statutory requirements and the Bylaws, the organization and functioning of the Stockholders' Meeting, its call notices, preparation, information, attendance and proceedings, in order to make it easier for stockholders to exercise their rights.

Stockholders' Meeting of June 19, 2003

Quórum

The detail of the quorum for the Stockholders' Meeting was as follows:

Stockholders	No. of Stockholders	No. of Shares	%
In person	514	141,699,673	13.38
By proxy	79,249	255,641,080	24.15
Total	79,763	397,340,753	37.53

The variations in quorum at the last four Stockholders' Meetings were as follows:

Year	2003	2002	2001	2000
Quorum	37.53%	35.19%	40.40%	32.32%

Resolutions adopted at the Stockholders' Meeting and result of voting

One. *Examination and, if appropriate, approval of the Financial Statements (Notes to Financial Statements, Balance Sheet and Income Statement) and of the Management Report of the Company and of its Consolidated Group, for the year ended December 31, 2002, and of the conduct of business for that year.*

Approved by a majority, with 383,725,586 votes for, 176,618 against and 13,438,549 abstaining, i.e. a total of 397,340,753 votes cast.

Two. *Appropriation of income for the year and distribution of a dividend.*

Approved by a majority, with 384,183,477 votes for, 64,364 against and 13,092,912 abstaining, out of a total of 397,340,753 votes cast.

Three. *Amendments to the Bylaws.*

Approved by a majority, with 362,616,623 for, 169,931 against and 13,531,527 abstaining out of a total of 376,318,081 votes cast.

No vote was cast for 21,022,672 shares held by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited to 31,752,563 shares, i.e., 3 percent of the capital stock, by a resolution of the Spanish National Energy Commission.

Four. *Approval of the Stockholders' Meeting Regulations.*

Approved by a majority, with 362,981,374 for, 154,016 against and 13,182,691 abstaining out of a total of 376,318,081 votes cast.

No vote was cast for 21,022,672 shares held by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited to 31,752,563 shares, i.e., 3 percent of the capital stock, by a resolution of the Spanish National Energy Commission.

Five. *Appointment, cooption, ratification and renewal per the Bylaws of Directors*

Approved by a majority, with 330,961,663 votes for, 550,597 against and 13,053,258 abstaining, out of a total of 344,565,518 votes cast.

No vote was cast for 52,775,235 shares held by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited by a resolution of the Spanish National Energy Commission.

Six. *Appointment of Auditors for the Company and its Consolidated Group.*

Approved by a majority, with 362,826,125 votes for, 820,623 against and 12,671,333 abstaining, out of a total of 376,318,081 votes cast.

No vote was cast for 21,022,672 shares held by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited to 31,752,563 shares, i.e., 3 percent of the capital stock, by a resolution of the Spanish National Energy Commission.

Seven. *Authorization for the Company and its subsidiaries to acquire treasury stock under the provisions of Article 75 and Additional Provision 1 of the Corporations Law.*

Approved by a majority, with 362,872,722 votes for, 412,894 against and 13,032,465 abstaining, out of a total of 376,318,081 votes cast.

No vote was cast for 21,022,672 shares owned by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited to 31,752,563 shares, i.e., 3 percent of the capital stock, by a resolution of the Spanish National Energy Commission.

Eight. *Authorization for the Board of Directors to carry out, implement and, if appropriate, remedy any resolutions adopted by the Stockholders' Meeting, and to delegate the powers received by it from the Stockholders' Meeting, and granting of powers to have those resolutions recorded in a public deed.*

Approved by a majority with 363,112,088 votes for, 102,667 against, and 13,103,326 abstaining, out of a total of 376,318,081 votes cast.

No vote was cast for 21,022,672 shares held by Caixa Holding, S.A., Sole-Shareholder Company, which placed on record that it did not exercise its right to vote since it was limited to 31,752,563

shares, i.e., 3 percent of the capital stock, by a resolution of the Spanish National Energy Commission.

Board of Directors. Organization and functioning

ENDESA, S.A. is governed by a Board of Directors which, in accordance with its Bylaws, will be composed of a minimum of nine and a maximum of fifteen members. The Stockholders' Meeting is responsible for appointing and removing the Directors. The office of Director may be resigned, revoked and be the subject of reappointment.

In accordance with Article 37 of the Bylaws, the types of director are as follows:

- a) Directors who are professionally and permanently linked to the Company.
- b) Directors whose relationship with the Company is confined to their membership of the Board.
- c) Directors by virtue of being stockholders.

Of the total number of Directors who, from time to time, make up the Board, the Directors referred to in letter b) above will constitute a majority, provided that the number of Directors elected pursuant to the right of the stockholders to be represented on the Board in proportion to their ownership interests in the capital stock so permits.

The term of office for the Directors will be four years, and they may be reelected for equal terms except for the Directors appointed under Article 37.b) of the Bylaws, who may only be reelected for a second term.

Under Article 36 of the Bylaws and in accordance with Article 141 of the Corporations Law, the Board regulates its organization and functioning under its own Regulations.

Article 37 of the Bylaws establishes that the Stockholders' Meeting is responsible for appointing and removing directors, while the office of director may be resigned, revoked, and the subject of reelection. Proposals by the Board for the appointment or reelection of directors will relate, as established by Article 5 of the Board Regulations, to persons of renowned prestige who possess suitable experience and professional knowledge to perform their functions and who give a commitment to provide a sufficient level of dedication to perform the tasks of the office.

The Board will meet at least once every two months, and whenever the Chairman sees fit or when one-third of its members so requests. Resolutions will be adopted by an absolute majority of the Directors, attending the meeting in person or by proxy. In the event of a tie, the Chairman or whoever substitutes for him at the meeting will have the casting vote.

In 2003, the Board of Directors held sixteen meetings, all of which were attended by the Chairman of the Board.

Functions of the Board of Directors

In accordance with the Corporations Law and the Bylaws, the Board of Directors governs and manages the Company.

The Board is responsible for the following general functions, which will be discharged by the Board sitting in plenary session or through its commissions and committees:

- a) To establish corporate strategy and management guidelines.
- b) To oversee the conduct of Senior Executives, hold them accountable for their decisions and evaluate their conduct of the business.
- c) To ensure the transparency of the Company's relations with third parties.

In implementing the provisions of the Bylaws, the Board will establish the general strategy of the Business Group formed from holdings in other companies.

In accordance with the law and the Bylaws, and under Article 141 of the Corporations Law, the Board will regulate its own functioning and that of its commissions and committees, draft its Regulations, which will be binding on the members of the Board, and act in plenary session or through its commissions and committees.

Directors' incompatibilities

The Directors will be subject to the following incompatibilities:

- a) Candidates for appointment as a Director may not be older than 70 years of age, and as the Chief Executive Officer may not be older than 65, although he may remain as a Director.
- b) Directors may not hold office or discharge duties of representation, management or counseling at competing companies or hold such office or discharge such duties at companies which have a position of control at competing companies.

- c) Directors may not simultaneously be members of more than five Boards of Directors. For these purposes, the Boards of Directors of the various investees, the Boards of Directors of the Group or of a stockholder entity represented by the Director, and the Governing Bodies of companies at which the Director's personal or family ownership interest entitles him to form part of those Boards of Directors, will not be computed.
- d) Persons who, themselves or through an interposed person, hold office, or are representatives of or are related to entities which are habitual customers of or suppliers of goods and services to the Company may not be members of the Board, if this status could give rise to a conflict of interest with the Company. Financial institutions, as providers of financial services to the Company, are excluded.

Directors' duty of loyalty and responsibility

It is the duty of all the Directors to contribute to the function of the Board to promote and oversee the management of the Company. In performing their functions, they must act in the corporate interest and with loyalty and diligence. Their conduct must be guided solely by the corporate interest, interpreted with full independence, ensuring at all the times that the interests of the stockholders as a whole, from whom their authority originates and to whom they are accountable, are best defended and protected.

Directors may not use the name of the Company or invoke their status as its Directors to perform transactions for their own account or that of persons related to them.

No Director may make or perform, for personal gain or for that of persons related to him, investments or transactions linked to the assets of the Company, that have come to his attention by virtue of his office, if the investment or transaction has been offered to the Company or the Company has an interest in it, provided that the Company did not reject the investment or transaction without the Director's influence.

Directors must notify the Board of Directors of any conflict of interest, whether direct or indirect, they may have with the Company. In the event of a conflict of interest, the Director concerned will refrain from participating in the transaction to which the conflict of interest relates.

In 2003, there were no cases of conflict of interest involving the Directors, without prejudice to the abstentions recorded in the Min-

utes of the Meetings of the Managing Bodies of the Company even though no conflict existed and with a view to taking the utmost precaution.

Directors must notify any ownership interests owned by them in the capital stock of a company engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of the Company, the duties or functions they discharge at such company, and whether they, for their own account or for the account of others, engage in an activity that is identical, similar or complementary to the activity constituting the corporate purpose of the Company.

In this connection, the members of the Board of Directors of ENDESA, S.A. with direct or indirect ownership interests in companies engaging in an activity that is identical, similar or complementary to the activity constituting the corporate purpose of the Company are as follows:

Director	Shares					
	Iberdrola		Unión Fenosa		REE	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Rafael Miranda Robredo	1,600	—	—	—	—	—
Francisco Núñez Boluda	1,132	—	3,000	—	—	—
Francisco Javier Ramos Gascón	2,668	6,744	1,000	7,440	—	380
José Serna Masidá	8,192	—	—	—	—	—
Manuel Ríos Navarro	—	3,080	—	—	—	—

Also, no member of the Board of Directors discharges offices or functions at companies engaging in an activity that is identical, similar or complementary to the activity constituting the corporate purpose of the Company, nor does any member engage in any activities for his own account or for that of others at companies engaging in an activity that is identical, similar or complementary to the activity constituting the corporate purpose of the Company.

By virtue of their office, Directors must:

1. Call for the necessary information and properly prepare meetings of the Board and of the corporate bodies to which they belong.

- Attend the meetings of the corporate bodies and commissions or committees of which they form part and actively participate in their debates with a view to effectively contributing to the decision-making process.

Directors will be liable to the Company, to the stockholders and to corporate creditors for any damage they cause by acts or omissions contrary to the law or to the Bylaws or by those performed in breach of the duties inherent to their office.

If the Board performs any damaging act or adopts any damaging resolution, all its members will be jointly and severally liable for such act or resolution, except for those who prove that they did not participate in its performance or adoption but also that they were unaware of its existence, or, if aware of it, took all the appropriate action to avoid the damage or at least expressly opposed it.

In no event will the fact that the damaging act or resolution was adopted, authorized or ratified by the Stockholders' Meeting excuse the Directors from liability.

Separation of functions

The Chairman of the Board and the Chief Executive Officer, as the highest authorities at individual level in the Company, will have differentiated functions as established in the Bylaws and in the Board Regulations.

In addition to the functions assigned by current legislation and the Bylaws, the Chairman will also be responsible for promoting the governance of the Company and its investees, directing the functioning of the Board, ensuring that the members of the Board have adequate information and representing the Company, in particular in dealings with the various public authorities, securities market institutions, public agencies, companies and associations in the electricity industry.

There is no specific requirement for being Chairman other than those applicable to Directors. The Chairman must be appointed by the Board of Directors.

The Chairman chairs the Executive Committee, has permanent authority to represent the Committee in accordance with the Bylaws, and, in any voting, has the casting vote.

The Chief Executive Officer is responsible for directing the management of the Company, in accordance with the decisions made and criteria set by the Board of Directors and the Executive Committee. He is in charge of all the services of the Company and will head the Senior Management of the Company.

The Chief Executive Officer is also responsible for implementing the strategy of the investees as a whole and, consequently, without prejudice to the bylaws of each company, will oversee the management and the Senior Management of those companies.

Composition of the Board of Directors

Office		Date of Appointment	Type	Entity
Chairman	Manuel Pizarro Moreno	10/18/96 05/14/02 ⁽¹⁾	a)	—
CEO	Rafael Miranda Robredo	02/11/97	a)	—
Members	Alberto Alonso Ureba	06/19/98	b)	—
	Miguel Blesa de la Parra	11/06/00	c)	Caja Madrid
	José María Fernández Cuevas	06/19/98	b)	—
	José M. Fernández Norniella	07/07/98	b)	—
	Rafael González-Gallarza Morales	06/19/98	b)	—
	Rafael Español Navarro	10/18/96	b)	—
	José Fernández Olano	10/18/96	b)	—
	Manuel Ríos Navarro	07/28/98	b)	—
	Francisco Javier Ramos Gascón	02/06/01	b)	—
	Francisco Núñez Boluda	05/12/98	b)	—
	José Luis Oller Ariño	06/25/97	b)	—
	José Serna Masiá	02/07/00	b)	—
Nondirector Secretary	Salvador Montejo Velilla	07/01/99	—	—

(1) Date of appointment as Chairman of the Company by the Board of Directors.

Executive Committee

The Executive Committee will be composed of a minimum of five and a maximum of seven members, including the Chairman and the Chief Executive Officer. The appointment of the members of the Executive Committee will require the affirmative vote of at least

two-thirds of the members of the Board. It will meet at least once a month.

The Executive Committee will be chaired by the Chairman of the Board of Directors, and the Secretary of the Board will act as its Secretary. The rules on substitutions of these officers are as established for the Board of Directors.

The Executive Committee is responsible for:

- a) Adopting resolutions pursuant to the powers delegated to it by the Board.
- b) Performing functions relating to the oversight of the management of the Company.
- c) Studying and proposing the guidelines that must define the business strategy and supervising its implementation, paying special attention to activities in the international and diversification areas.
- d) Debating and reporting on, for referral to the Board, issues relating to the following matters, whether or not they have been delegated by the Board:
 - Annual budgets of the Company with a detail of the projections for each line of business and monitoring of economic management, budgetary deviations and proposed corrective measures.
 - Tangible or financial investments and alliances or agreements which are relevant for the Company.
 - Financial transactions of economic importance and medium-term action plans.
 - Assessment of the extent to which the various operating units of the Company are meeting their objectives.

Resolutions of the Executive Committee on matters for which it has been delegated powers by the Board must be implemented as soon as they have been adopted. However, in cases where, in the opinion of the Chairman or of a majority of the members of the Executive Committee, the importance of the matter so advises, the resolutions of the Executive Committee will be submitted for subsequent ratification by the Board.

The composition of the Executive Committee is as follows:

Office		Date of Appointment	Type
Chairman	Manuel Pizarro Moreno	03/18/97 05/14/02	a) (1)
CEO	Rafael Miranda Robredo	02/11/97	a)
Members	Alberto Alonso Ureba	03/29/01	b)
	Miguel Blesa de la Parra	03/06/01	c)
	José María Fernández Cuevas	03/29/01	b)
	José Manuel Fernández Norniella	07/07/98	b)
Nondirector Secretary	Salvador Montejó Velilla	07/01/99	—

(1) Date of appointment as Chairman of the Executive Committee of the Board of Directors.

In 2003 the Executive Committee held twenty-five meetings.

3. Committees

The Board of Directors will, in accordance with legal provisions and with its power to organize itself, set up an Audit and Compliance Committee, an Appointments and Compensation Committee, and such other Committees or Commissions as may be necessary or as it may deem appropriate for the optimum performance of its functions.

Audit and Compliance Committee

The Audit and Compliance Committee will be composed of a minimum of four and a maximum of six members of the Board, as designated by the affirmative vote of a majority of the Board itself. A majority of Committee members must be Directors whose relationship with the Company is confined to their status as Board members.

The Chairman of the Committee will be designated, from among its members, by the Board by the affirmative vote of a majority of the Board itself. The Chairman must be replaced every four years, and he may be reappointed one year after standing down.

In the absence of the Chairman, the member of the Committee provisionally appointed by the Board of Directors will substitute for him and, in the absence of such member, the oldest member of the Committee. The Audit and Compliance Committee will meet as often as called by its Chairman, when a majority of its members so decides, or at the request of the Board of Directors. Committee meetings will take place at the registered office or elsewhere as determined by the Chairman and stated in the call notice.

The Committee will be validly convened when a majority of its members are present. Resolutions will be adopted by the affirmative vote of a majority of the directors attending the meeting. In the event of a tie, the Chairman, or whoever is performing his functions, will have the casting vote.

The Secretary of the Board of Directors will be the Secretary of the Committee and will draw up minutes of the resolutions adopted, on which he will report to the Board.

The main function of this Committee is to ensure good corporate governance and transparency in all the actions of the Company in the economic/financial and external audit area and in the compliance and internal audit area and, in any event, it will be entrusted with the following functions:

- a) To inform the Stockholders' Meeting on the issues raised thereat by the stockholders and falling within the Committee's competence.
- b) To propose to the Board of Directors for submission to the Stockholders' Meeting the appointment of the external auditors, in accordance with Article 57 of the Bylaws.
- c) To supervise internal audit services.
- d) To be familiar with the financial reporting process and with the information and internal control systems of the Company.
- e) To liaise with the external auditors to receive information on any matters that might jeopardize their independence and any other matters relating to the process of auditing the financial statements, as well as any other communications established in audit legislation and in technical audit standards.

These functions are illustrative and without prejudice to any others that the Board of Directors may entrust to the Committee.

The composition of the Audit and Compliance Committee is as follows:

Office		Date of Appointment	Type
Chairman	Francisco Javier Ramos Gascón	03/29/01 05/14/02	b) (1)
Directors	Francisco Núñez Boluda	07/07/98	b)
	José Luis Oller Ariño	07/07/98	b)
	José Serna Masidá	02/07/00	b)
Nondirector Secretary	Salvador Montejo Velilla	07/01/99	—

(1) Date of appointment as Chairman of the Audit and Compliance Committee.

During 2003, the Audit and Compliance Committee held nine meetings.

Appointments and Compensation Committee

The Appointments and Compensation Committee will be composed of a minimum of four and a maximum of six Board members, designated by the affirmative vote of a majority of the Board itself. A majority of Committee members must be Directors whose relationship with the Company is confined to their status as Board members.

The Chairman of the Appointments and Compensation Committee will be designated, from among its members, by the Board by the affirmative vote of a majority of the Board itself. The Chairman must be replaced every four years, and he may be reappointed one year after standing down.

In the absence of the Chairman, the director provisionally appointed by the Board of Directors will substitute for him and, in the absence of such member, the oldest member of the Committee.

The Appointments and Compensation Committee will meet as often as called by its Chairman, when a majority of its members so decides, or at the request of the Board of Directors. Committee Meetings will take place at the registered office or elsewhere as determined by the Chairman and stated in the call notice.

The Committee will be validly convened when a majority of its members are present. Resolutions will be adopted by the affirmative vote of a majority of the directors attending the meeting. In the event of a tie, the Chairman, or whoever is performing his functions, will have the casting vote.

The Secretary of the Board of Directors will be the Secretary of the Committee and will draw up minutes of the resolutions adopted, on which he will report to the Board.

The Appointments and Compensation Committee will be entrusted, inter alia, with the functions of reporting on and proposing the appointment of the members of the Board of Directors, whether by cooption or a proposal to the Stockholders' Meeting. It will also report on their compensation.

In addition, the Committee will be entrusted with the following functions:

- To inform the Board of Directors of appointments relating to ENDESA Senior Management, as well as of the most senior executives of Enersis, Chilectra and Endesa Chile.
- To approve the compensation of members of Senior Management.
- To decide on the adoption of compensation arrangements for Senior Management that take into account the earnings of the companies. Also, it must ascertain and assess the Company's policy on executives.
- To determine the specific rules on relationships between the Chairman and the Chief Executive Officer and the Company.
- To prepare and approve the Charter Governing Senior Management.

These functions are illustrative in nature and without prejudice to any others which the Board of Directors may entrust to the Committee. The Board may require the Committee to prepare reports on matters falling specifically within its field of action.

The composition of the Appointments and Compensation Committee is as follows:

Office		Date of Appointment	Type
Chairman	Rafael González-Gallarza Morales	07/07/98 05/14/02	b) (1)
Directors	Rafael Español Navarro	02/07/00	b)
	José Fernández Olano	03/29/01	b)
	Manuel Ríos Navarro	02/07/00	b)
Nondirector Secretary	Salvador Montejó Velilla	07/01/99	—

(1) Date of appointment as Chairman of the Appointments and Compensation Committee.

During 2003, the Appointments and Compensation Committee held four meetings.

Advisory Councils

The Board of Directors may resolve to set up Advisory Councils, without the status of corporate bodies, to study and report on such issues as the Board may deem to be of interest to the performance of its functions. The Board will, at the Chairman's proposal, approve the appointments of Advisory Council members who must be individuals of renowned prestige by virtue of their professional credentials in Spain or abroad.

4. Secretary of the Board of Directors

The Board of Directors must appoint a Secretary and, where appropriate, a Deputy Secretary, neither of whom need be a director; in the event of a vacancy or absence or if neither attend, they will be substituted by the youngest director among the attendees at the meeting.

The Secretary, who must be a law graduate, has the following responsibilities, apart from the functions conferred by statute and by the Bylaws, in conformity with Article 38 of the Board Regulations:

- To keep the corporate documentation, duly reflect in the minutes books the proceedings at meetings and certify the resolutions of the corporate bodies.
- To see to it that the activities of the Board are lawful from the formal and substantive standpoints, and ensure that its procedures and rules of governance are respected.
- To channel, in general, dealings between the Company and the Directors in all matters relating to the functioning of the Board, in conformity with the Chairman's instructions.
- To deal with requests from Directors for information and documentation on matters of which the Board should be apprised.
- To ensure observance of the principles and rules of corporate governance and the provisions of the Bylaws and Regulations of the Company.

Without prejudice to his reporting to the Board Chairman, the Secretary has independence to professionally perform the functions set forth in the preceding sections.

The Secretary, who will have such status on the various corporate bodies, may also hold office as legal counsel to the corporate bodies and as General Secretary, and in this latter capacity he may, reporting to the Chief Executive Officer, assist with the integration, coordination and consolidation of the Company and its lines of business.

5. External auditors

The external auditors audit the financial statements, are informed regularly of the controls and procedures defined by ENDESA, S.A.

and its subsidiaries, perform their work with total independence, and have access to the Audit and Compliance Committee in order to set forth their conclusions and recommendations, and to the minutes of the meetings of the Board of Directors, Executive Committee, Audit and Compliance Committee and Appointments and Compensation Committee.

Fees

The fees paid to the various auditors of both ENDESA, S.A. and its subsidiaries in 2003 were as follows:

ENDESA, S.A.

- Audit by Deloitte & Touche of the individual and consolidated financial statements: €28,188 and €394,239, respectively.
- Other audits and audit-related services performed by Deloitte & Touche: €1,213,936.
- Other nonaudit services from Deloitte & Touche: €831,300.
- Other audits and audit-related services performed by other auditors: €19,665.
- Other nonaudit services from other auditors: €351,000.

Subsidiaries

- Audit of financial statements by Deloitte & Touche: €2,525,936.
- Other audits and audit-related services performed by Deloitte & Touche: €2,066,474.
- Other nonaudit services from Deloitte & Touche: €860,288.
- Audits of financial statements by other auditors: €668,768.
- Other audits and audit-related services performed by other auditors: €448,650.
- Other nonaudit services from other auditors: €47,200.

6. Organizational structure of the Company

Company management is organized at the highest level under the following managing bodies:

Executive Management Committee

Chaired by the Chief Executive Officer, this is the highest body managing the Company's business activities with a view to implementing the defined strategies. Its members do not receive any compensation other than that received for the discharge of their office.

Office	Member
Chief Executive Officer (CEO)	Rafael Miranda Robredo
Company Secretary	Salvador Montejo Velilla
Senior Vice President, Legal Affairs	Francisco de Borja Acha Besga
Executive Vice President, Electricity Business	José Damián Bogas Gálvez
Senior Vice President, Distribution	José Luis Marín López-Otero
Senior Vice President, Planning and Resources	Antonio Pareja Molina
Executive Vice President, International	Luis Rivera Novo
Senior Vice President, Diversification	Alfredo Llorente Legaz
Chief Financial Officer	José Luis Palomo Álvarez
Senior Vice President, Strategy	Carlos Torres Vila
Senior Vice President, Human Resources	Germán Medina Carrillo
Senior Vice President, Communication	Gabriel Castro Villalba

Management Committee

Composed of the Chief Executive Officer and all the top-tier Managers, this body is charged with implementing the management guidelines and policies designed by the Board of Directors.

Its members do not receive any compensation other than that received for the discharge of their office.

Office	Member
Chief Executive Officer (CEO)	Rafael Miranda Robredo
Company Secretary	Salvador Montejo Velilla
Senior Vice President, Legal Affairs	Francisco de Borja Acha Besga
Executive Vice President, Electricity Business	José Damián Bogas Gálvez
Senior Vice President, Energy Management	Pedro Larrea Paguaga
Senior Vice President, Generation	Manuel Morán Casero
Senior Vice President, Supply	Javier Uriarte Monereo
Senior Vice President, Distribution	José Luis Marín López-Otero
Senior Vice President, Mining	José Félix Ibáñez Guerra
Senior Vice President, Planning and Resources	Antonio Pareja Molina
Senior Vice President, Planning and Control	M ^a Isabel Fernández Lozano
Senior Vice President, Corporate Services	Evaristo Villa Ruiz
Executive Vice President, International	Luis Rivera Novo
Senior Vice President, International Business	Alberto Martín Rivals
Senior Vice President, International, Energy Management	Héctor López Vilaseco
Senior Vice President, Diversification	Alfredo Llorente Legaz
Chief Financial Officer	José Luis Palomo Álvarez
Senior Vice President, Strategy	Carlos Torres Vila
Senior Vice President, Human Resources	Germán Medina Carrillo
Senior Vice President, Audit	José Luis Puche Castillejo
Senior Vice President, Communication	Gabriel Castro Villalba

Management Council

Composed of the Chairman, Chief Executive Officer, Senior Management, Chairmen of the Advisory Councils, Territorial General Managers, and Chairmen and General Managers of relevant subsidiaries.

7. Risk control systems

The growing complexity of the sectors of business and the varied interests involved in them give rise to myriad risks. ENDESA is affected by these risk factors and by those resulting from its activities.

To mitigate and control all these risks as far as possible, ENDESA has established, per the control strategy and risk profile defined by the Board of Directors, internal operating rules that reasonably ensure the establishment of operating principles for, and the bodies in charge of, the control and management of risks.

Operating principles

1. The Audit and Compliance Committee is entrusted by the Board of Directors with the function of approving the system for evaluating and controlling risks relevant to ENDESA and its subsidiaries.
2. Creation of a Risk Committee which defines the global risk policy.
3. Activities with higher risk levels than those established in the global risk policy must be approved previously by the Risk Committee.
4. To control and manage risks, regard is had to the various businesses, with global risk measurements that ensure that the sum of the parts is optimized.
5. Each business line and corporate area is responsible for preparing and applying its own risk policy in line with the global risk policy, and for establishing risk management mechanisms ensuring compliance with that policy.
6. In view of the nature of ENDESA's business and its corporate purpose, the levels of risk borne will always be linked to business development needs.

Risk Committee

Regular Committee meetings are held quarterly and extraordinary meetings are held whenever called by the Chief Executive Officer. Its main functions are:

1. To establish and keep updated ENDESA's Global Risk Policy, tailoring it to ENDESA's activities and businesses at any time.

2. To establish ENDESA's level of exposure to global risk and to communicate the risk limits.
3. To approve the methods for measuring global risk.
4. To supervise ENDESA's level of exposure to risk using periodic information.
5. To periodically inform the Board's Audit and Compliance Committee of the level of exposure to risk.
6. To analyze the impact on earnings and on the level of risk of engaging in new businesses, markets, etc.
7. To promote an independent audit of the corporate risk control processes and procedures.
8. To supervise the objectives set for the Business Units in relation to the inclusion of the evaluation and maintenance of the level of risk within the limits set as a priority in their work.

Risk Control System

The Risk Control System currently implemented is based on a set of strategic and operational actions aimed at complying with the global risk policies necessary to fulfill the objectives approved by the Board of Directors without exceeding the risk limits established.

The basic objectives of the risk control process at the Company are as follows:

1. To serve as support to Senior Management in the definition of the risk limits in the businesses.
2. To establish the procedures for identifying, approving, analyzing, controlling and reporting on ENDESA's risks in accordance with its strategy and risk tolerance.
3. To facilitate the development and implementation of risk measurement methodologies that encompass all ENDESA's risks and enable them to be identified early.
4. To communicate to the risk-taking areas the corporate policies and procedures, and monitor compliance in this connection.
5. To ensure that the risk policies and procedures of the Business Units are consistent with the global risk policy of the Company.
6. To ensure that ENDESA complies with existing regulations.
7. To promote in the Organization the prioritization of risk as a vector in the management of the businesses.

The Risk Control System, in which global risk is defined as the risk resulting from the consolidation of all the risks to which ENDESA is exposed (market, credit, operating, and business risks) having regard to the effects of mitigating the various exposures to and categories

of risk, will make it possible to consolidate and evaluate the risk exposures of all the business units and areas of the Company, as well as to prepare the relevant management information for making decisions on risk and the adequate use of capital.

The risk control process is the result of a model based, on the one hand, on the ongoing analysis of the risk profile, on the best practices currently prevailing in the energy industry or as benchmarks in risk management, on uniform measurement standards, on the separation between risk managers and controllers, and on the other hand, on ensuring the connection between the risk borne and the resources necessary to operate the businesses.



corporate strategy for sustainable development

NDESA's strategy defines the precepts, objectives and lines of action that must be applied by the Company in every situation to carry out its corporate purpose efficiently and meet the expectations of the public segments with which it relates; it pays special attention to stockholders, customers, employees and the communities in which Endesa is present and, ultimately, embodies the fundamentals of its corporate vision and mission.

ENDESA's Vision comprises the following principles:

- An operator in the business of energy and connected services, focused on electricity.
- A responsible, efficient and competitive multinational company.
- A company prepared to compete at global level.

The Company's Mission is to:

- Maximize the value of its stockholders' investment.
- Serve its markets, surpassing its customers' expectations.
- Contribute to its employees' development.

The Company's current Strategic Plan establishes the objectives and lines of action for each of its businesses during the period 2004-

2008. For this plan to encompass the Company's different areas of activity, specific strategic action plans were derived from it. Among the plans most closely related to the Company's sustainability policy, is the Strategic Plan for the Environment and Sustainable Development and the Strategic Human Resources Plan.

1. ENDESA's Strategic Plan

1.1. Compliance with the 2002-2006 Strategic Plan

In February 2002, in view of the world economic situation, ENDESA presented to the markets its 2002-2006 Strategic Plan with the following objectives:

- To increase the profitability of the Company's existing business lines, focusing firmly on its core business.
- To harness the organic growth of its markets.
- To manage its asset portfolio.
- To strengthen its financial structure.

the major macroeconomic indicators and the expected behavior of the markets at medium term, the Company decided to update this Plan, setting much more ambitious objectives involving the optimization of investments and more divestments, assigning priority to the following objectives:

- To strengthen the balance sheet.
- To consolidate and increase the profitability of the Company's core business, i.e. the electricity business.
- To generate cash flow.

In 2003 ENDESA attained to a high degree many of the Plan's objectives especially with regard to strengthening its financial structure. In the course of the year it reduced its debt by €5,497 million to a figure of €17,250 million by year-end, representing a 24.2% decrease compared with the 2002 year-end level.

With regard to the profitability of the Company's core business, the Spanish electricity business contributed €1,207 million to the Company's total net income in 2003, the Latin American business contributed €84 million, compared with the losses recorded in 2002, the European electricity business achieved net earnings of €52 million, up 147.62% from 2002, and the other business lines reduced their net losses by €465 million to €31 million in 2003.

This upswing in the Company's businesses led to consolidated net income of €1,312 million at 2003 year-end, 3.3% higher than in 2002.

The operating cash flow (EBITDA) of ENDESA's electricity business as a whole amounted to €4,692 million in 2003, which helped the Company to acquire the right dimension to execute its activities and meet its objectives.

Lastly, in the area of cash flow generation, the 2003 cash flow of €3,815 million covered all the investments made, the payment of dividends and the provisions recorded for commitments, and also reduced the Company's debt significantly.

1.2. Objectives of the 2004-2008 Strategic Plan

Based on the successful application of the Plan during the first two years, in the coming years the Plan will be developed to focus on the following priorities:

- To maintain ENDESA's leadership position in the Spanish electricity industry.
- To consolidate the presence it already has in Southern Europe.
- To optimize the current international electricity business portfolio and harness the high potential for growth based on the improvement of the region's economic context.
- To extract maximum value from ENDESA's current position in the telecommunications business.
- To continue strengthening its financial structure.
- To reinforce customer orientation by taking firm steps to enhance service quality, which will improve the Company's competitive position in the electricity market.

Some of the salient objectives that will be targeted by the Strategic Plan in the period 2004-2008 are as follows:

- To satisfy the increase in Spanish demand with a diversified and competitive mix of power generation, through a plan to construct 5,847 MW of new capacity, to which will be added the other 1,400 MW obtained from the conversion to imported coal of units currently consuming Spanish coal. Of this capacity, 2,800 MW will relate to combined cycles and 2,089 MW to facilities using renewable energies, with special emphasis on supply security and environmental protection. Most of the remaining capacity will be installed in the island systems to cater for the high increases in demand usually recorded in these markets.
- To implement a Plan for Excellence in supply and sales service quality in the Spanish electricity business, paying special attention to enhancing and expanding the distribution infrastructures and to customer service.
- To develop ENDESA's presence in the gas market to achieve a 20% market share in 2008.
- To continue the program for repowering ENDESA Italia's generating facilities.
- To capitalize on the organic growth of the Latin American electricity business, which has been assisted by the region's improved economic climate and the ongoing effort to strengthen the Enersis Group financially.

1.3. Investment Program

Under the Investment Program linked to ENDESA's Strategic Plan, €13,100 million are to be invested in the business lines as follows:

ENDESA 2004-2008 Investment Program (Millions €)

Electricity business in Spain	3,700
Electricity business in Europe	1,000
Electricity business in Latin America	500
Telecommunications and other	300
Total investments in organic growth	5,500
Investments in maintenance	7,600
Total investments	13,100

It should be pointed out that in the Spanish electricity system the Company plans to allocate approximately €9,000 million to new facilities and maintenance investments, with the threefold objective of making supply safer, protecting the environment and maintaining a competitive, diversified power generation mix.

2. Strategic Plan for the Environment and Sustainable Development

In executing its 2004-2008 Strategic Plan, Endesa will be more firmly committed to the principles of sustainable development. Accordingly, the Company will meet its strategic objectives by delivering to its customers a quality service responsibly and efficiently, while creating value for its shareholders, boosting its human resources through skill-building and training programs, adhering strictly to the rules of good corporate governance, assisting with the development of the communities in which it operates and using the natural resources necessary for its operations in a sustainable manner.

ENDESA understands the concept of sustainability as the integration, in fulfillment of its corporate purpose, of a responsible attitude towards the environments in which it operates, the efficient use of resources, so that its activity is compatible with environmental protection, and the creation of wealth and well being for those who invest in it, work in it or use its services.

These criteria are specifically defined in its Strategic Plan for the Environment and Sustainable Development, which is fully integrated into and consistent with the Company's global strategy.

In particular, ENDESA will continue to apply measures to reduce its 1990 CO₂ emission level by 35% in 2007, by investing in combined cycles and renewable energies, implementing efficiency enhancement measures at its coal-fired plants, shutting down its less efficient fossil-fuel power plants and maintaining a power generation mix that is safe, competitive, diversified and balanced.

The 2003-2007 Strategic Plan for the Environment and Sustainable Development, approved on June 23, 2003, by ENDESA's Management Committee, arose from the need to tackle the challenges and to seize the opportunities arising in the new scenarios generated by changes in environmental legislation and by the growing appreciation- especially by investors and other stakeholders- of the Company's commitment to a sustainable development model.

The purpose of the Plan is to make ENDESA a Company that is increasingly:

- More responsible, identifying more closely with the communities in which it operates and which it serves, defining its environmental and social responsibilities and acting accordingly.
- More efficient, boosting the value of its operations, using natural resources rationally, and minimizing the risks arising from progressively more stringent environmental legislation.



- More competitive, benefiting from the opportunities for sustainable development to create durable value in the Company and thus to make it more competitive and more attractive to investors.

The Plan was prepared with the joint participation of the Company's areas and units related to sustainable development, which contributed their knowledge, experience, information and perspectives to provide the Environment and Sustainable Development Department with a balanced, comprehensive view of the needs to be met.

To manage the change of scenario, the strategic objectives of the Plan were defined to target the creation of value in all the areas and to reinforce ENDESA's business performance.

These objectives will consolidate ENDESA's leadership and credibility in the area of the Environment and Sustainable Development and ensure the medium- to long-term survival and creation of value.

2.1. Corporate and operating programs

The Plan defines two types of programs:

Corporate Programs. Set out the Company's general policy on the environment and sustainable development, and the measures commonly applicable to all the Company's units. They cover the following areas:

- Integration of sustainable development in corporate management.

Strategic objectives of the Plan for the Environment and Sustainable Development of ENDESA



- Climate change.
- Renewable energies.
- Conservation of biodiversity.
- Adaptation to the Large Combustion Plant Directive.
- Implementation of Environmental Management Systems.
- Relation with contractors and suppliers.
- Control and follow-up of management indicators.
- Integrated waste management.
- Opportunities and synergies in customer management.

Operating Programs. These encompass the business area development measures for the period 2003-2007, which are included in ENDESA's Annual Operating Plan (POA-PM) and are directed towards compliance with the business and legal requirements of each of these areas.

In 2003 ENDESA Italia and Endesa Chile prepared their 2004-2008 environmental strategies in accordance with ENDESA's general guidelines; in this way the same principles govern all the sustainable development activities performed throughout the Company.

The Strategic Plan for the Environment and Sustainable Development also establishes the responsibilities for each program, the resources assigned, the activities and the deadlines for completion.

Organization of responsibility for the environment and sustainable development at ENDESA



2.2. Environment and Sustainable Development Committee

This body was created to facilitate the inclusion of the environmental and sustainable development strategy and the principles established therein in the business decisions taken at the highest executive level.

The Committee analyzes and prepares the Company's Sustainability Plans, advises Senior management on these matters, coordinates the associated areas in the Company and monitors compliance with the Strategic Plan for the Environment and Sustainable Development.

The Committee is composed of the General Managers of the Company's different areas who participate in corporate management, and is chaired by the Company's Chief Executive Officer.

The other bodies managing and performing sustainability functions are described in more detail in the "Environment" chapter of this Report.

In 2003 ENDESA formed a working group whose task was to prepare the draft of the Sustainable Development Policy and to prepare an action plan to implement and develop its principles in the business strategy. As a result, the objectives of the Strategic Plan for 2003 were met and measures were proposed for continuous improvement in the coming years.

3. Strategic Human Resources Plan

In 1998 ENDESA launched a Human Resources Strategic Plan which describes all the policies and measures necessary to develop the Company's personnel management model.

The aim of the Plan is to have an action policy for the management and development of ENDESA personnel to respond to the needs of the Company's business lines.

Its objectives are:

- To make the Company's human resources efficient.
- To attract, integrate and develop the best professionals to increase its human capital.

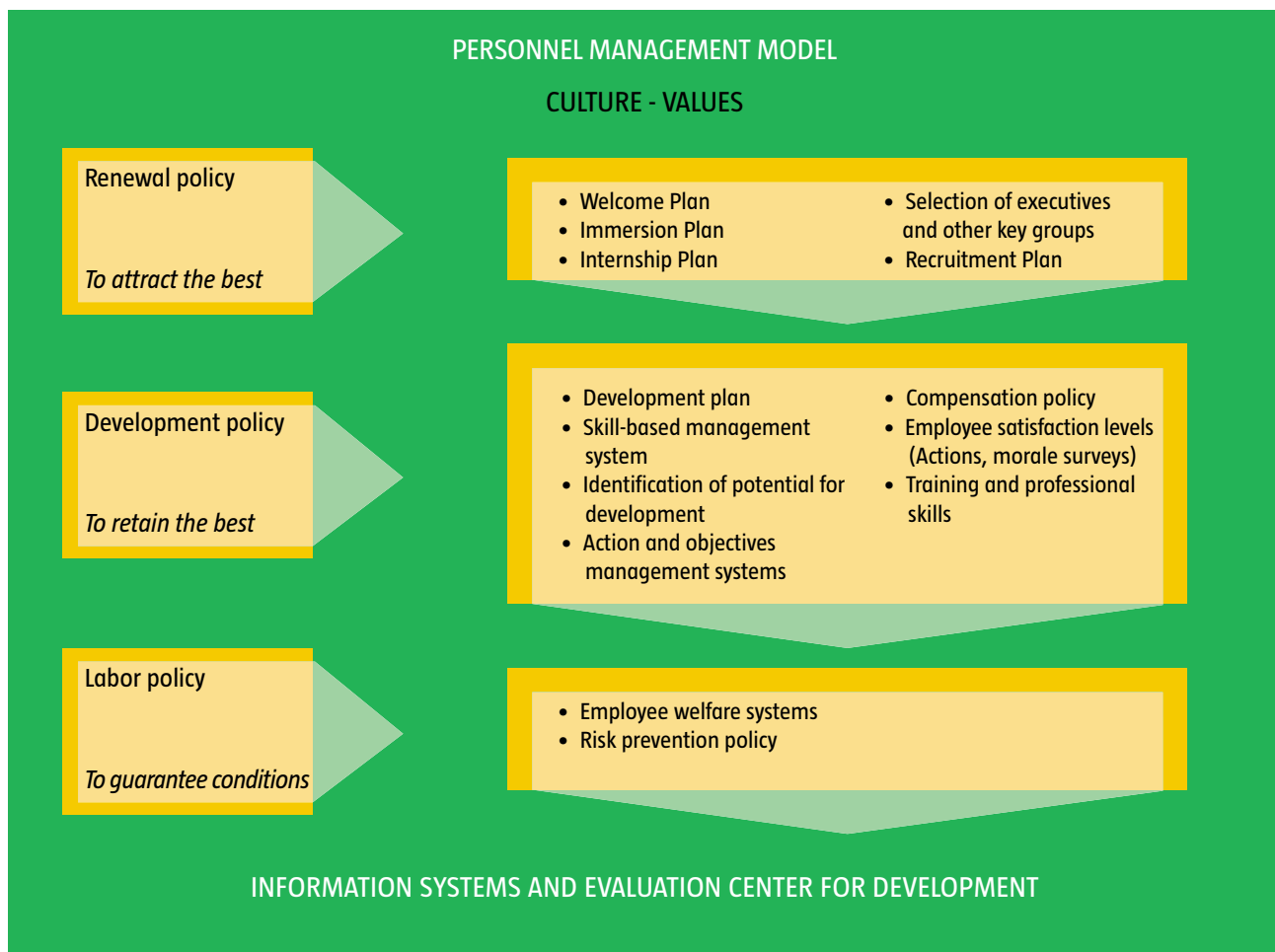
– To inculcate in ENDESA personnel suitable attitudes to attain the following objectives:

- Commitment
- Proactivity, initiative and innovation
- Flexibility, foresightedness and adaptability
- Efficiency and value creation
- Customer orientation (as the bottom-line focus)
- Rational expectations of professional development

– To contribute to the achievement and consolidation of a benchmark culture which singles them out as ENDESA employees.

– To establish specific policies and management tools for human resources applicable throughout the Group and adapted to each business line.

Strategic Human Resources Plan







ENDESA: a company committed to sustainable development

One of ENDESA's bedrock values which differentially characterizes its business track record is its commitment to the social environments in which it operates. In this context, it has adopted a model of responsible growth, based on continuous improvement in the use of the resources necessary for its activities and on the efficiency of its business processes. This reduces the impact of its activities on the environment and creates opportunities for development of the communities it serves.

This chapter presents the general principles underlying ENDESA's commitment to Sustainable Development and the measures it has adopted to make them workable.

1. ENDESA and Sustainable Development

The Company has established the principles of its sustainability measures by preparing its Sustainability Policy.

These principles are set forth in the document *Seven Commitments for Sustainable Development*. Our commitment to the future, the text of which is as follows:

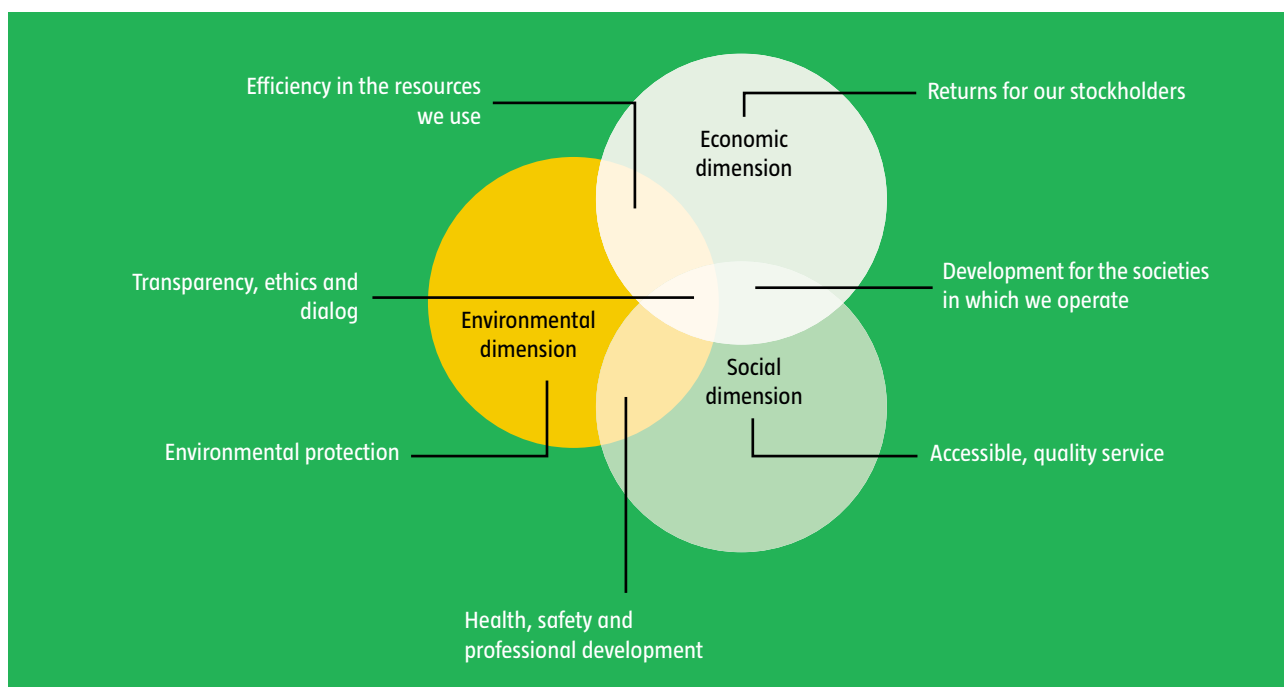
We are an international energy utility, with electricity as our core business and a growing presence in the gas industry, and a supplier of other related services.

Our objective is to supply our customers with a quality service responsibly and efficiently, while providing a return to our stockholders, fostering our employees' professional development, assisting with the development of the social environments in which we operate and using the natural resources necessary for our activities in a sustainable manner.

We are aware that we must meet our economic, social and environmental responsibilities in a balanced manner, based on sustainability criteria, if we are to maintain our current leading position and reinforce it for the future.

The following commitments for sustainable development constitute the guidelines and foundation for our conduct in this area.

Compliance with them is expressly promoted by Company Management and concerns each and every one of us who work at the Company or on its behalf; this is why we transfer them to our contractors and suppliers and allow third parties to evaluate our compliance.



These commitments are fully integrated into our day-to-day work and are constantly reviewed and improved by ENDESA Management and all of us who participate in their application.

To this end, we carry on our business activities efficiently and competitively, endeavoring to optimize the use of available resources responsibly, to the advantage of the investors who have placed their trust in our Company.

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Areas of commitment

Our customers. Commitment to service quality

ENDESA pursues ongoing excellence in its service to its customers.

We are aware that we are suppliers of an essential good for the social and economic development of the communities in which we are present. It is our responsibility to become increasingly efficient and to know our customers better so that we can offer sound solutions tailored to their needs. To achieve this, we have an alert organization permanently in contact with the market.

We are therefore committed to providing services with a high level of quality, safety and reliability.

Our stockholders. Commitment to the creation of value and profitability

We are firmly committed to the objective of increasing Company value and providing a return to our stockholders in the context of a relationship based on the principles of loyalty and transparency.

Our people. Commitment to the health, safety and personal and professional development of the people working at ENDESA

ENDESA's employees form part of a community of several thousand individuals who want to give of their best to an attractive, participative business project that is committed to the personal and professional advancement of all of us working on it.

ENDESA is aware that if its business project is to succeed, it must keep in mind its employees' aspirations and encourage them to collaborate enthusiastically on this project.

Accordingly, the Company undertakes to provide equal opportunities to all its employees to enable them to develop their skills and professional careers, without any discrimination, especially with regard to race, sex, political affiliation or religious belief, and to ensure safe and healthy work environments and a balanced combination of work and family life.

It also fosters among them training, team work and the sharing of knowledge and endeavors to generate a working climate in which dialog, creativity and initiative are prized.

Our conduct. Commitment to good governance and ethical behavior

We believe that honesty and integrity are essential values of our Company which should guide our behavior, which is oriented towards creating relationships based on dialog and mutual trust with our customers, stockholders, employees, suppliers, contractors, public authorities and other stakeholders.

Accordingly, we apply the principles of good corporate governance firmly and report rigorously and transparently on our economic and financial status, our strategic plans, our attitude towards the environment and compliance with our obligations and responsibilities with respect to the social environments in which we operate, in a climate of loyal collaboration and dialog with public institutions and regulatory bodies.

The environment. Commitment to environmental protection

Environmental protection is a criterion that is permanently embedded in our Company management and decision-making processes.

We identify, evaluate and manage the environmental impact of our activities and strive to minimize it, especially with regard to the use of primary energies, as part of our commitment to provide services with the highest levels of safety and quality and to ensure that they contribute to the competitiveness of the industry and to the well-being of society.

In this context, our Company is aware that the use of natural resources must not pose a problem for the development of future generations, especially with regard to the global problem of polluting emissions.

Innovation. Commitment to efficiency

We are aware that we use very valuable natural resources and that the industrial processes characteristic of our activities inevitably affect the environment.

Accordingly, we endeavor to use the cleanest and most efficient technologies available and to direct our research and technological innovation capability towards reducing these effects locally and globally and increasing energy savings.

To this end, we include energy assessment in the services we offer to our customers and we develop measures to promote the rational use of energy.

The community. Commitment to the development of the communities in which we operate

Our assimilation into the territories in which we are present is an essential element of our corporate culture.

We are aware that the supply of energy is fundamental to the development and wellbeing of the community. We therefore attend to the obligations typical of this service, strive to provide this service in the best possible conditions of safety and quality and to progressively expand its scope to include larger segments of the population in the areas in which we are present.

At the same time, we carry out our corporate purpose, contributing to the social, economic and cultural development of these areas, while respecting at all times their cultural values.

This conduct is based on our Company's identification with human rights and democratic values as essential elements for the advancement of societies.

These commitments to sustainable development are fully integrated into ENDESA's strategy, and are consistent with its values, its mission, and its vision of the business project.

2. Integrity Program

ENDESA has incorporated the practices of Good Governance into its corporate management. The Company's concern for transparency, the definition of the duty of care and loyalty of its directors and the stability of its governing bodies have been its basic guidelines.

In this context, over the past few years Endesa has taken a number of actions to regulate its intra- and extra-organizational relationships, which are key to the development of its businesses.

These actions included the design of an Integrity Program which pursued the establishment, regulation and notification to the organ-

ization of the rules of conduct, regulations and working methods governing the life of the Company with visibility for stockholders, customers, suppliers, the community and employees.

The Integrity Program consists of the definition and decisive implementation of the following aspects aimed at establishing and reinforcing the bases of the conduct valued by Endesa in its members:

- **Vision, Mission and Values:** define the Company’s identifying characteristics. The process of definition was carried out with the participation of all the Company’s executives, who actively led the project. ENDESA Values are: People, Team Work, Ethical Conduct, Orientation towards the Customer, Orientation towards Earnings, Innovation and The Community and The Environment.
- **Charter governing Senior Management:** based on ENDESA’s vision, mission and values, it establishes the regime for ENDESA’s Senior Management, and highlights the principles governing their actions and the limitations and incompatibilities arising from their status as senior executives.
- **Charter governing Executives:** derived from the previous charter and applicable to the executives not included in Senior Management. It also sets out specific rules for the executives for whom it was established.
- **Employees’ Code of Conduct:** generally applicable to all ENDESA employees and essentially the same as the foregoing two Charters, except for the elements referring specifically to the above-mentioned groups.

The two Charters and the Code of Conduct have a common core of contents based on certain General Principles of Conduct, which are subdivided into Ethical Conduct, Professionalism and Confidentiality and also describe a number of Limitations and Incompatibilities vis-à-vis competitors and aspects affecting independence. The difference between the Charters and the Code lies in the higher or lower levels of responsibility addressed within the organization.

To ensure that these standards are applied, a Monitoring and Compliance Committee, composed of the Corporate Managers of Human Resources, Audit and Legal Advisory Services, was formed. One of its functions is to interpret any ambiguities emerging in the application of these standards and to propose means of resolving cases of noncompliance.

Lastly, the specific actions performed in 2003 included most notably the following:

- Approval by ENDESA’s Board of Directors in March.
- Inclusion in the notes to financial statements in the “Corporate Governance Report” section.
- Inclusion on ENDESA’s web page.
- Inclusion on ENDESA’s intranet.
- Formation of the Integrity Program Monitoring and Compliance Committee composed of the Corporate Managers of Legal Advisory Services, Audit and Human Resources.
- Distribution with a copy to be signed and returned by all the members of Senior Management.
- Distribution to each of ENDESA’s Executives of the Charter governing Executives accompanied by a letter from the Chief Executive Officer, which had to be signed in acknowledgment of receipt and acceptance.
- Issue of the Employees’ Code of Conduct.
- Large-scale internal dissemination of the Integrity Program and specifically the Employees’ Code of Conduct, to all the staff through a direct line.
- Distribution to each employee of the Code of Conduct accompanied by a letter from the Corporate Manager of Human Resources.

ENDESA’s Vision and Mission are developed in accordance with a number of fundamental principles and values which constitute the Company’s Code of Business Conduct.

ENDESA Values

- **People.** We guarantee development opportunities based on merit and on professional contribution.
- **Team work.** We encourage everyone to participate in attaining a common goal, sharing information and knowledge.
- **Ethical conduct.** We act professionally, with moral integrity, loyalty and respect for people.
- **Orientation towards the customer.** We focus our efforts on customer satisfaction, providing competitive, quality solutions.
- **Innovation.** We promote ongoing improvement and innovation to achieve optimum quality from the standpoint of profitability.

- **Orientation to earnings.** We direct our efforts towards meeting the objectives of our corporate project and obtaining profitability for our stockholders, aiming to surpass their expectations.
- **Community and Environment.** We commit ourselves socially and culturally to the Community and adapt our corporate strategies to the preservation of the environment.

These values are linked to ENDESA's current and future commitment to Sustainable Development.

The scope of ENDESA's Code of Conduct includes all its activities and it is disseminated among all the employees through specific training programs or internal means of communication.

3. Action Principles

ENDESA has decided to join one of the most prestigious international initiatives on sustainable development: the Global Compact.

The Global Compact is an initiative of the United Nations Organization which was launched in July 2000 to promote the adoption of nine basic universal principles by private companies, workers' associations, governmental organizations, etc.

By joining the Global Compact, ENDESA undertakes to defend human rights, comply with labor regulations and respect the environment, by adhering to the following principles:

Reporting to the Global Compact

At 2003 year-end, ENDESA published on the Global Compact website (www.unglobalcompact.com) two specific examples of its progress and experience in the application of two of the core principles of the Global Compact, as required of it as a member.

These examples are in addition to those presented in 2002 and described in ENDESA's 2002 Sustainability Report.

The examples published and the principles they respond to are as follows:

- **Principle 7 (Environmental Area):** *Businesses should support a precautionary approach to environmental challenges.*

With regard to this principle, ENDESA has submitted a report on the status of environmental certification of its generation and distribution activities.

The Company has made significant progress on the implementation and certification of environmental management systems in accordance with ISO 14001, with the following results:

- In 2003, the environmental certificate was obtained by 14 of the Company's power generation plants, which included the first three combined-cycle power plants to obtain this certification. In Spain, 84% of the Company's fossil-fuel production is already certified.
- At ENDESA Italia, 51% of the installed capacity was certified, compared with 43% in 2002, due to the certification of the Trapani fossil-fuel power plant.

Core Principles of the Global Compact



- In Latin America, the certified installed capacity increased from 26% in 2001 to 64% in 2003, due to the certification of five power plants in 2002 and 10 in 2003. Notably in Argentina, all ENDESA's power generation and distribution plants are certified.
- Major progress has been made in the distribution business with the certification of Edesur in Argentina and Codensa in Colombia, which provide service to over four million consumers.
- The Company expects to obtain certification in 2004 for Chilectra in Chile and Edelnor in Peru.

- **Principle 8 (Environmental Area):** *Companies should undertake initiatives to promote greater environmental responsibility.*

ENDESA has reported on its activities based on this principle, presenting as an example its scientific, social and environmental work in the Huinay region (Chile).

The Company and Pontificia Universidad Católica de Valparaíso (UCV) created the Fundación San Ignacio de Huinay to launch a sustainable development and biodiversity conservation project in the Huinay region in Chile.

Through this project, a Scientific Research Center was built in an area of significant value from the standpoints of biodiversity and ecology. It is open to the international scientific community and its aims are to ascertain the scientific and environmental aspects of the area, and to foster socio-economic development and cultural exchange.

The initiatives executed in this area have contributed to improving the quality of life of the inhabitants of Huinay; they have power supply, better communications, access to technologies hitherto nonexistent in the area, and improved health care and child education.

The Huinay area is managed in a sustainable way, and its biodiversity is protected by the implementation of exploitation techniques which pay more respect to the environment.

Creation of the Global Compact Coordination Committee in Spain

ENDESA's involvement in the Global Compact goes beyond the adoption of its nine principles, since it has participated in the formation of the Global Compact Coordination Committee in Spain and has played an active role in its projects and initiatives.

This Committee coordinates the dissemination of good business practices and encourages learning and the exchange of experiences in sustainable management among the members of the Compact. It reports on the content of the Compact and the best practices of member organizations and promotes initiatives to ensure compliance with the nine principles of the Compact.

In addition, it fosters the exchange of knowledge and cooperation with the Global Compact network in other countries and liaises with the UN's Global Compact office.

Noteworthy with regard to the activities performed in 2003 was the creation of a working instrument to promote the consolidation of the Compact in Spain, known as the Square Table, which constitutes a common forum for dialog through monthly meetings attended by large companies, SMEs, NGOs, labor unions and business schools.

As a result of discussions among the members of this working group, the following tools were put into service:

- A Global Compact web page in Spanish (www.pactomundial.org), an instrument for communication, information and participation of all the entities belonging to this common initiative.
- Meetings for learning exchanges among the member companies, held in Barcelona, Madrid and Galicia.
- Increasing dialog among member companies and labor unions and nongovernmental organizations concerning the implementation of the nine principles of the Compact.

Sustainable Company Code of Governance

ENDESA, as the leader of the Spanish electricity industry and promoter of sustainable development in the business sphere, participates in the development of tools to facilitate the implementation of sustainability principles in organizations.

In this spirit, it participates as a founder member of the Governing Council of the Code of Good Governance for a Sustainable Company.

4. Dialog with stakeholders

Stockholders and investors

The Company's activities are aimed at achieving its corporate purpose and it therefore highlights among its business project objectives the creation of value and profitability for its stockholders.

In line with this focus, it is constantly in touch with its stockholders and individual and institutional investors, to whom it supplies up-to-date information about the Company's progress.

In this context, it should be mentioned that in 2003 ENDESA was ranked as the second-best company in Investor Relations among the European electricity utilities and the first among Spanish electricity utilities by analysts and investors polled by Tempest-Reuters, Thomson Financial – Extel.

ENDESA uses specific channels to communicate with its stockholders and investors. Among these channels is an Investor Relations Department and a Stockholder Office. The latter consists of a free service to stockholders who can contact the Company personally or by telephone to process their requests and obtain Company information: earnings, dividends, market prices, debentures and bonds issued, Stockholders' Meeting, etc.

In 2003 the Stockholders' Office attended to 14,600 calls and 104 visitors and mailed or emailed information to over 5,600 people.

ENDESA's website (<http://www.endesa.es>), which offers a large volume of economic and financial data, had 791,427 visitors in 2003. Of these, approximately 47,294 (6%) used the sections specifically allotted to investors.

Customers

ENDESA is known for its orientation towards its customers and strives constantly to satisfy their needs, providing competitive, quality solutions and personalizing its services and products to cover their specific needs.

The Company uses a wide array of communication channels to market its products and services, to provide clear and transparent price information and to offer advice to make the use of its products and services safer, and more convenient and efficient.

ENDESA also uses sophisticated systems to monitor its customers' perception of the quality of its products, services and channels. As a result of this monitoring, a specific relationship model was designed for each customer segment.

Household customers

ENDESA offers its household customers a quality service which goes beyond merely supplying electricity, through its *Household Customer Relationship Program*, in which special attention is paid to fostering the efficient use of electricity, which at the same time encourages the safe, environment-friendly use of its products and services.

In this context, in 2003 the Company carried out the following initiatives:

- Electricity rate information: The purpose of this initiative was to provide detailed information to customers and users in their bills about the various power supply rates charged, and an objective interpretation and explanation of their growth.
- Information about the deregulated market: ENDESA's customer telephone service offered information on the deregulation of the energy market and on new household electricity and gas rates. Information about these matters was also provided in attachments to the bills.
- Air conditioning campaign: This campaign was conducted to recommend good practices for encouraging the efficient use of air conditioning; for example, by installing awnings, keeping the blinds closed, ventilating during cooler periods of the day and selecting the most suitable cooling system for the home. It also offered the customers a telephone service for information and advice.

- Sanitary hot water and heating campaign: ENDESA promoted energy savings by advising customers on the rational use of heating: maximum of 21°C, installation of double glazing, ventilation of rooms for a maximum of 30 minutes, etc.
With regard to the use of sanitary hot water, it recommended the optimum temperatures for energy-efficient use, the installation of energy-saving appliances and the use of the night rate.
- Campaign for the rational use of energy: In this campaign targeting all household consumers, small businesses and enterprises, the Company recommended simple habits for the rational use of energy and also offered to provide advice on this matter.
- Household protection campaign: The objective of this initiative was to encourage the adoption of basic measures to make households and home equipment safe. In 2003 the Company distributed informative leaflets with its bills and also at its Service Points.
- Information regarding customer service channels: ENDESA reminded its household customers of the different channels through which their requests for information could be answered.
- Electricity inquiry service: This telephone service cleared up all doubts concerning electricity consumption and the labeling of household appliances.

Companies

- Reactive energy balance: ENDESA performs reactive energy balance studies for its customers to diagnose their annual consumption, and ascertain how, when, where and in what amount surcharges and penalties arise. These studies also enable the customer to compare the economic impact of these factors with the savings obtained from the installation of leading-edge systems to manage them.
- Personalized studies and analyses: This energy counseling service ascertains in detail the customer's energy requirements and offers assistance and guidance as to the best way of improving the technical or management aspects of systems. This service focuses on:
 - Advice on electricity rates: The electricity rate which best matches the customer's needs is defined.
 - Energy optimization: This initiative makes the customer's facilities more energy-efficient through the adjustment of the load factor, efficient lighting, centralized supply management, supply quality and safety, etc.

Energy engineering: Especially recommended for cases in which savings can be achieved by reengineering processes or energy systems. ENDESA markets equipment such as condenser batteries, generators and UPS systems.

All these services save time, effort and costs, optimize equipment and processes and provide customized products.

Large Customers

ENDESA has placed at the disposal of its large customers services specifically created for companies which, due to their large business volume and the demands of their markets, require a tailor-made solution for their needs.

In this area, it has launched a range of environmental services, prepared a catalog of these services and organized training programs for the persons responsible for sales channels.

The Integrated Energy Services comprise, inter alia:

Electrical Services	Environmental Services
Electrical capacity increase services	Implementation of Environmental Management Systems (ISO 14001 and EMAS)
Electrical engineering projects	Environmental impact studies
Integral electricity quality services	Electromagnetic field studies
Electricity material procurement services	Master plans for the environment
Integral electricity maintenance services	Environmental training
Personalized customer services	Other
Gas services	Preventive and corrective measures
Gas engineering projects containing PCBs	Removal and replacement of equipment
Gas quality control and metering services	Analytical controls (water and air)
Gas material procurement services	Wastewater treatment systems
Integral energy management services	
Energy advisory services	
Institutional investment management	
Integral plant management	
Designs of solar, fossil-fuel and photovoltaic facilities	

In 2003, the projects carried out for large customers involved energy advisory services (34), supply quality (31), training (10), engineering (454), investment management (4), solar facilities (1) and the environment (15), in the tourism, food and agriculture, textile and automotive industries, among others.

Call Center Service

The Call Center Service was started up in 2003 to improve customer service.

This platform is one of the largest in Spain based on the number of calls answered (over 9 million annually) and the human, material and technological resources assigned to it.

It has four physical call center platforms (two in Seville and two in Barcelona) based on a single virtual platform, which makes service management highly flexible, achieves high-quality customer service and optimizes operating costs.

Data protection

ENDESA has developed procedures to protect its customers' personal data in accordance with Personal Data Protection Law 15/1999. In this context, the Company sent its customers a letter expressing its wish to use their data for commercial purposes among its subsidiaries and reiterating its commitment to use this information responsibly and confidentially, provided that the customer does not expressly forbid its use. The customers have access to these data at all times for information, rectification or deletion.

The text of the letter was approved by the Data Protection Agency and the letter will continue to be sent over a period of one year, to include all the existing and newly-connected customers. The new service contracts will include a specific clause regarding consent for the use of customer data.

Customer Ombudsman

ENDESA's Customer Ombudsman is independent from the Company's management and his main objective is to offer its customers an additional path for dialog regarding the services provided by the Company in the Spanish market.

ENDESA is at present the only Spanish energy company to have a Customer Ombudsman.

The mission and objectives of ENDESA's Customer Ombudsman are as follows:

- To be the final deciding authority on claims regarding electricity distribution and retailing and, generally, services supplied by the Company, so that the customers are assured of fair and nondiscriminatory treatment and, as a result, mutual trust between the customer and Endesa is restored.
- To mediate and reconcile any disagreements arising between ENDESA and its customers in relation to the service.
- To listen to external interlocutors to improve dialog and achieve greater mutual trust, and also to prevent the occurrence or aggravation of disagreements or differences.
- To listen to internal interlocutors, i.e. those of the Company itself, in order to understand the problems specific to customer service processes and to become more closely involved with ENDESA's service quality commitment.
- To recommend to the Company, through the issue of resolutions, ways of improving service quality and meeting customers' expectations.

ENDESA's Customer Ombudsman began his work in November 2002, and 2003 therefore marked his first complete year in office. Among the claims he attended to in the year, 73% referred to supply quality, 13% to contracts and the remainder to other matters. Based on supply category, 68% came from household customers.

In 2003 the Customer Ombudsman submitted a number of recommendations to the Company, mainly to improve its written notices to customers, to carry out informative campaigns offering customers advice on protecting their installations and receivers, and to improve the processing of and attention to claims submitted repeatedly.

Employees

In 2003, personnel management focused on covering the needs arising from the corporate changes and the application of plans and policies forming part of the Strategic Human Resources Plan.

A detailed description is given of the Company's activities in this area in Chapter 8 of this Report.

Mention should be made, strictly as an example and since they are related to the subjects discussed in this chapter, of the surveys on working climate conducted between 2001 and 2002 in Spain and Latin America, respectively, focusing on the level of satisfaction at work.

The findings of these surveys were used to define a range of initiatives of great importance to the Company-employee relationship, which included notably the preparation of the Charter governing Senior Management, the Charter governing Executives and the Employees' Code of Conduct, the application of skill development courses for ENDESA's Personnel Managers, the organization of the presence of the Managing Director and General and Corporate Managers at training and informative sessions on relevant Company matters, and the introduction of an "employee dynamism mailbox" (dinamización@endesa.es) through which the employees can contact the persons in charge of the Job Replacement Competencies Center to express their interest in any future professional opportunities that may arise at the Company.

The community

ENDESA supplies services that are fundamental to the social and economic development of the areas in which it operates. This has deepened the relationship and involvement of the Company with these social environments, a factor which constitutes one of the distinctive and differentiating values of its business track record.

In the context of this special sensitivity to the needs of the social environments in which it is present, the Company carries out a wide range of social and cultural projects in all of them.

These activities are preferably and generally carried out through the ENDESA Foundation. The Company has also promoted the creation of other Foundations in Spain and Latin America for the development of similar activities in local areas or with specific aims. Lastly, these activities are supplemented by those executed directly by the Company or by its subsidiaries.

The strategic lines and objectives of these activities and the main actions executed in 2003 are described in detail in Chapter 8 of this Report.

Coal Mining Plan and alternative development of mining areas

Current Spanish Coal Mining legislation addresses certain aids to the industry so that Spanish coal can compete with other coals that can be acquired in the international market.

Some measures consist of an undertaking by the electricity utilities to purchase certain minimum quantities of coal per year, the signing of contracts between mining and electricity companies for periods of no less than three years, aids provided directly to miners, subsidies for modernizing and restructuring mining companies, the alternative development of mining areas and the reindustrialization of the areas affected.

Subsidies and aids

ENDESA, together with public agencies, labor unions and local institutions, promotes the launch and development of various initiatives designed to create a new business fabric in certain areas of Spain to facilitate their economic and social development.

These projects are known collectively as Economic and Industrial Development Plans and ENDESA participates in those promoted in the areas to which it is closely linked and related due to its business activities.

By participating in these projects, ENDESA wishes to assist these areas in developing activities other than mining and electricity and thus to create stable employment. We participate in the form of non-refundable aids and subsidies which supplement other public subsidies for all the investment projects which meet this objective.

