



**ENDESA, S.A.**  
**and Subsidiaries**

**Consolidated Management Report**  
**for the six-month period ended**  
**30 June 2011**

Madrid, 29 July 2011



**ENDESA, S.A. AND SUBSIDIARIES**  
**MANAGEMENT REPORT**  
**FOR THE SIX-MONTH PERIOD ENDED**  
**30 JUNE 2011**

**Contents**

1. Analysis for the period .....	3
Consolidated results .....	4
Results by business line.....	11
Business in Spain, Portugal and Other .....	12
Business in Latin America .....	19
2. Statistical appendix.....	26



## **Analysis for the period**

## Consolidated results

### Endesa reported net income of Euro 1,283 million in the six-month period ended 30 June 2011.

Endesa reported net income of Euro 1,283 million in the first half of 2011, Euro 837 million (-39.5%) lower than in the same period last year.

The drop in net income is explained by the fact that net income for 1H10 included an Euro 881 million after-tax gain generated by the merger of Endesa Cogeneración y Renovables, S.A.U. (now ENEL Green Power España, S.L., hereinafter "EGPE") with ENEL Green Power, S.p.A. (hereinafter, "EGP").

Excluding gains from the sale of assets in both periods, net income rose 5.8% in 1H11.

The table below shows the breakdown of net income by region and the year-on-year change:

<b>Endesa's net income for January-June 2011</b>			
	<b>Euro million</b>	<b>% change 1H10</b>	<b>% of total net income</b>
Spain, Portugal and Other	963	(46.7)	75.1
Latin America	320	2.6	24.9
<b>TOTAL</b>	<b>1,283</b>	<b>(39.5)</b>	<b>100.0</b>

### Electricity generation and sales

Endesa's power output in the first six months of 2011 totalled 65,695 GWh, 6.4% higher than in the same period in 2010. Electricity sales stood at 87,283 GWh, up 1.8%.

<b>Power output and sales: January-June 2011</b>				
	<b>Output</b>		<b>Sales</b>	
	<b>GWh</b>	<b>% change 1H10</b>	<b>GWh</b>	<b>% change 1H10</b>
Spain, Portugal and Other	35,944	11.8	52,963	0.4
Latin America	29,751	0.5	34,320	4.0
<b>TOTAL</b>	<b>65,695</b>	<b>6.4</b>	<b>87,283</b>	<b>1.8</b>

## EBITDA: Euro 3,493 million

EBITDA and EBIT fell by 9.3% and 12.2% respectively in 1H11, to Euro 3,493 million and Euro 2,468 million.

The Euro 357 million reduction in EBITDA and Euro 343 million drop in EBIT are the result of several factors, highlighting the following:

- Recognition of a Euro 109 million expense in the first half of 2011 for the Colombian subsidiaries relating to the accrual of net worth tax at 1 January 2011, which will be paid during the period 2011-2014.
- The severe drought in Chile in the first six months of the year has triggered a 26% decline in hydroelectric power generation at Endesa's subsidiaries in this country, and consequently a Euro 136 million fall in EBITDA in the Chilean generation business.
- The sale of assets in 2010, which generated an EBITDA of Euro 130 million in the first six months of that year.

During the first half of 2011, revenues grew 7.2% to Euro 16,194 million, primarily because of higher sales prices. Variable costs rose by 14.2% as a result of a less favourable generation mix, with higher conventional thermal generation and lower hydro and nuclear output, thereby hiking up fuel costs, and a higher cost of energy purchases.

Fixed costs rose by 4.3% (Euro 79 million) due to the recognition of Euro 109 million relating to net worth tax in Colombia. Stripping out this non-recurrent effect, fixed costs would have fallen by 1.6%.

The table below shows the breakdown of EBITDA and EBIT by region and the year-on-year change:

	Revenues		EBITDA		EBIT	
	Euro million	% change 1H10	Euro million	% change 1H10	Euro million	% change 1H10
Spain, Portugal and Other	11,230	6.7	2,064	(9.2)	1,329	(17.1)
Latin America	4,964	8.2	1,429	(9.4)	1,139	(5.7)
<b>TOTAL</b>	<b>16,194</b>	<b>7.2</b>	<b>3,493</b>	<b>(9.3)</b>	<b>2,468</b>	<b>(12.2)</b>

## **Net financial result improved by 49.3% to Euro 300 million**

The net financial result for the first half of 2011 was Euro 300 million, a Euro 292 million improvement compared to the first half of 2010.

Net finance expense totalled Euro 333 million, down 41.9% on the same period in the previous year, while net exchange gains were Euro 33 million, compared to the loss of Euro 19 million seen in January-June 2010.

The following factors should be taken into account in the comparison between the two periods:

- The net financial result for 1H10 included the Euro 77 million negative impact for adjusting interest relating to the financing of the revenue deficit for regulated activities in Spain pursuant to Royal Decree Law 6/2010 of 9 April.
- The net financial result for the six-month period ended 30 June 2011 includes a positive impact of Euro 63 million relating to interest recognised as a result of the two rulings handed down by the National Court partially recognising the appeals filed by Endesa in relation to Corporate Income tax for the Endesa Group in 1998 and 1999. Of this figure, Euro 27 million correspond to the business in Spain, Portugal and Other, and the remaining Euro 36 million to the business in Latin America.
- Lastly, the trend in long-term interest rates in the first six months of both 2011 and 2010 required an update of the provisions for obligations relating to the prevailing workforce reduction programme in the amounts of positive Euro 21 million and negative Euro 67 million, respectively. These amounts have been recognised in the consolidated income statement under "Net financial results".

## **Cash flow from operating activities: Euro 2,385 million**

Net cash flow from operating activities in the six-month period ended 30 June 2011 totalled Euro 2,385 million compared to Euro 1,997 million at 30 June 2010.

## Investment: Euro 1,115 million

Endesa invested a total of Euro 1,115 million in the first half of 2011. Of this figure, Euro 996 million was related to capex and intangible investments and the remaining Euro 119 million to financial investments.

Investment	Euro million			% change 1H10
	Capex and intangible assets	Financial investments	TOTAL	
Spain, Portugal and Other	504	28	532	(19.4)
Latin America	492	91	583	53.0
<b>TOTAL (*)</b>	<b>996</b>	<b>119</b>	<b>1,115</b>	<b>7.1</b>

(\*) Excludes investments in non-current assets held for sale and from interrupted activities amounting to Euro 58 million.

## Financial position

Endesa had net financial debt of Euro 12,157 million at 30 June 2011, a reduction of Euro 3,179 million compared to 31 December 2010.

Breakdown of Endesa's net debt by business line (*)	Euro million			% change
	30 June 2011	31 December 2010	Difference	
Business in Spain, Portugal and Other	7,506	10,684	(3,178)	(29.7)
Business in Latin America	4,651	4,652	(1)	-
Enersis Group	4,385	4,188	197	4.7
Other	266	464	(198)	(42.7)
<b>TOTAL</b>	<b>12,157</b>	<b>15,336</b>	<b>(3,179)</b>	<b>(20.7)</b>

(\*) Net financial debt = Non-current financial liabilities + Current financial liabilities - Cash and cash equivalents - Financial derivatives recognised under assets

The average cost of Endesa's total debt was 6.4% in 1H11, while the cost of the debt corresponding to the Enersis Group was an average 9.5%. Excluding Enersis Group debt, the average cost of Endesa's debt was 4.6% in the period.

When assessing Endesa's debt levels, it must be remembered that at 30 June 2011, the company had the recognised right to collect Euro 6,088 million in connection with several regulatory matters affecting the Spanish electricity business: Euro 3,434 million for financing the revenue shortfall from regulated activities and Euro 2,654 million in compensation for stranded costs in non-mainland generation. Stripping out these regulatory items, Endesa's net debt at the end of June 2011 stood at Euro 6,069 million.

On 7 July 2010, Endesa informed the Deficit Securitisation Fund for the Electricity System (FADE) of its irrevocable commitment to transfer all its deficit collection rights derived from the financing of the revenue shortfall from regulated activities

and the compensation for stranded costs in non-mainland generation accumulated in the period 2001-2008. According to Royal Decree 437/2010 of 9 April, these rights must be securitised within a year from the notification date, as long as no exceptional circumstances arise in the markets. Where applicable, the Inter-ministerial Commission must rule that such circumstances have arisen. A year after the notification date, the initial holders may dissolve the commitment to transfer any collection rights that have not been securitised by the fund.

In the six-month period ended 30 June 2011 the FADE made issuances totalling Euro 7,000 million, and, as a result of these issuances, Endesa received Euro 3,637 million.

As the committed rights had not been transferred to FADE before 7 July 2011 the Inter-ministerial Commission issued a resolution stating that exceptional conditions had occurred in the markets that prevented FADE acquiring said rights in the stipulated timeframe. Endesa decided not to dissolve the commitment in this respect, postponing it by a further year, to 7 July 2012.

Additionally, during 1H11, Endesa received pending receivables of Euro 256 million of the compensation for stranded costs in non-mainland generation directly from the Spanish government's budgets through the compensation mechanism established by Royal Decree Law 6/2009, of 30 April.

Moreover, the General Shareholders' Meeting held on 9 May 2011 resolved to distribute a total dividend against 2010 earnings of Euro 1.017 (gross) per share, amounting to a total of Euro 1,076 million. Bearing in mind the interim dividend already paid on 3 January 2011, the final dividend for 2010 will be Euro 0.517 (gross) per share, for a total of Euro 547 million paid on 1 July 2011.

**Structure of Endesa's net financial debt at 30 June 2011  
(Euro million)**

	Endesa and direct subsidiaries		Enersis Group		Total Endesa Group	
	Euro million	% of total	Euro million	% of total	Euro million	% of total
Euro	7,766	99	-	-	7,766	64
Dollar	13	1	1,354	31	1,367	11
Other currency	(7)	-	3,031	69	3,024	25
<b>TOTAL</b>	<b>7,772</b>	<b>100</b>	<b>4,385</b>	<b>100</b>	<b>12,157</b>	<b>100</b>
Fixed rate	4,920	63	2,314	53	7,234	60
Hedged	279	4	-	-	279	2
Variable	2,573	33	2,071	47	4,644	38
<b>TOTAL</b>	<b>7,772</b>	<b>100</b>	<b>4,385</b>	<b>100</b>	<b>12,157</b>	<b>100</b>
Avg. life (years)	3.8		5.3		4.4	

Endesa had liquidity of Euro 5,806 million in Spain at the close of 1H11, sufficient to meet the group's total debt repayments over the next nine months. Euro 5,389 million of this amount comprised undrawn sums on unconditional credit lines.



Meanwhile, the Enersis Group held cash and cash equivalents totalling Euro 1,131 million and Euro 694 million in undrawn, unconditional credit lines, covering debt maturities for the next 22 months.

As of the date of release of 1H11 earnings, Endesa's long-term debt ratings are: Moody's "A3", Standard & Poor's "BBB+", and Fitch "A", all of them with a stable outlook.

## **Financial leverage**

Endesa's consolidated equity was Euro 23,415 million at 30 June 2011, Euro 251 million higher than at 31 December 2010.

Euro 18,204 million of this amount corresponded to Endesa S.A. shareholders, and Euro 5,211 million to minority shareholders of group companies.

The changes in group equity and net debt resulted in leverage ratio of 51.9% at 30 June 2011, compared to 66.2% at 31 December 2010.

## **Assets held for sale**

At the end of 2010 Endesa started proceedings for the sale of its 100% stake in Endesa Ireland Ltd. (hereafter, "Endesa Ireland"). As a result, at 30 June 2011 Endesa's consolidated balance sheet included these assets classified as held for sale because proceedings had started by that date for their disposal and are expected to be completed within a year.

On 30 March 2011, Endesa entered into an agreement with its controlling shareholder ENEL Energy Europe, S.L.U. (hereinafter, "EEE") to transfer Endesa's telecommunications and systems business to EEE for Euro 250 million. This transaction is intended to ensure all telecommunications and systems services are jointly managed for both the Endesa Group and the Enel Group, as part of the global business strategy aimed at generating synergies.

The transaction took place in July and resulted in a gross capital gain of Euro 176 million that will be included in the consolidated income statements in the third quarter of 2011.

At 30 June 2011 the assets and liabilities included in this transaction were classified in the consolidated balance sheets under the headings "Non-current assets held for sale and from interrupted activities" and "Liabilities associated with non-current assets held for sale and from interrupted activities".

## **Net gains from asset disposals**



The main divestments made during 1H11 were as follows:

**Compañía Americana de Multiservicios Ltda.**

On 24 February 2011, Enersis sold to Graña y Montero S.A.A the assets of the group headed by the Chilean company, Compañía Americana de Multiservicios Ltda. (hereafter, "CAM"). The agreed sale price for this company was Euro 14 million (USD 20 million), generating a before-tax gain of Euro 8 million.

**Synapsis Soluciones y Servicios IT Ltda.**

On 1 March 2011, Enersis sold to Riverwood Capital L.P. the assets of the group headed by the Chilean company, Synapsis Soluciones y Servicios IT Ltda. (hereafter, "Synapsis"). This sale was made for Euro 37 million (USD 52 million), generating a before-tax gain of Euro 5 million.



## **Results by business line**

## **Business in Spain, Portugal and Other**

### **Net income – Spain, Portugal and Other: Euro 963 million**

Net income from Endesa's business in Spain, Portugal and Other was Euro 963 million in the first half of 2011, Euro 845 million lower than the same period in 2010, contributing 75.1% of the company's total net income.

The figure for the first half of 2010 included a gain of Euro 881 million from the merger of EGPE in EGP. Excluding the gain from asset disposals from both periods, net income in this business segment would have risen by 7.5%.

EBITDA was Euro 2,064 million, down 9.2% year-on-year, and EBIT totalled Euro 1,329 million, down 17.1%.

The decline in EBITDA and EBIT is primarily due to the following factors:

- Disposals of electricity transmission and distribution and gas transmission and distribution assets in the second half of 2010, which had a negative impact of Euro 98 million on EBITDA.
- The integration of renewable energy assets held by Endesa in Spain and Portugal in EGP, which meant they were no longer consolidated in the financial statements of Endesa using the full consolidation method after the second half of 2010, with an impact at EBITDA of Euro 32 million.
- The less favourable power generation mix due to the drop in hydro and nuclear output, and the increase in conventional thermal generation, leading to higher fuel costs.
- The higher average price on the electricity wholesale market during 1H11 compared to that prevailing in the same period of 2010. This price hike has bumped up the cost of electricity purchases required to cover the gap between sales and output, thereby leading to a shrinking of the margin on these sales.

The Euro 274 million decrease in the EBIT of this business line was almost fully offset by the Euro 248 million improvement in financial results.

## Highlights

Electricity demand fell by 0.6% year-on-year in the first six-months of 2011 (+0.4% adjusted for working days and temperatures).

Additionally, between January and June 2011, wholesale electricity prices continued to rise by 41% compared to the same period in 2010.

During this period, Endesa obtained a market share in ordinary regime generation of 33.4%, a 42.1% share in distribution and a 39.3% share in sales to deregulated customers.

From a regulatory perspective, Ministerial Order ITC/3353/2010, of 28 December, established that access tariffs shall remain unchanged from 1 January 2011, while capacity payments payable by consumers have increased.

Resolution of 28 December 2010, establishing the Last Resort Tariff (hereinafter, "LRT") to be applied in the first quarter of 2011, stipulated an average increase of 9.8% in this tariff.

Order ITC/688/2011, of 30 March, established the access tariffs and the LRT applicable from 1 April 2011. The LRT remained unchanged after access tariffs increased by 10.9%, in line with the reduction in energy prices. For the remaining low-voltage tariffs, access tolls have gone up 7%, while medium and high-voltage tariffs have increased 2%. This Order also set the provisional interest rate, pending enacting regulations, applicable to the 2010 deficit until it is transferred at 2%.

Additionally, the Resolution of 30 June 2011 set the LRT for the third quarter of 2011. LRTs have increased by 1.5% on average as a result of the increase in energy costs following the CESUR (Contratos de Energía para el Suministro de Último Recurso) auction. However, access tariffs remain unchanged.

The difference between access tariffs collected in the six months to 30 June 2011 and system costs during the same period led to a revenue shortfall on regulated activities of approximately Euro 1,985 million for the sector as a whole. Of this amount, Endesa must finance 44.16%.

Furthermore, Royal Decree 302/2011, of 4 March was enacted on 5 March 2011, establishing a mechanism through which last resort suppliers (hereinafter, "LRS") must acquire financial contracts for a maximum amount of energy equivalent to the difference between the volumes they have applied for and those allocated to them through the CESUR auction. The selling agents are the special regime generators under the tariff option. The price of this energy will be settled by the difference between the CESUR price and the spot price.

In relation to the mechanism to promote Spanish coal production (Royal Decree 134/2010, of 12 February, amended by Royal Decree 1221/2010, of 1 October), on 10 February 2011 a resolution was passed establishing the amounts of coal to be consumed in 2011, the maximum output covered by this mechanism, and the energy

prices to be applied in this process. This mechanism began to be applied at the end of February 2011.

## Other highlights

On 30 June 2011, Endesa closed an agreement with Gas Natural, S.A., according to which Endesa will acquire a portfolio of approximately 245,000 gas customers and other associated contracts in the Madrid area for Euro 38 million. The agreement is still pending the approval of regulatory and competition authorities.

## Revenues: Euro 11,230 million (+6.7%)

Endesa reported revenues of Euro 11,230 million from its Spain, Portugal and Other business in the first half of 2011, an increase of 6.7%. Of this amount, revenues from sales accounted for Euro 10,433 million, 5.3% higher than in the first half of 2010, as shown below:

	Euro million			% change
	1H11	1H10	Difference	
<b>Sales in Spain, Portugal and Other</b>				
Electricity sales	8,247	7,959	288	3.6
Sales on the deregulated market	3,434	3,144	290	9.2
TLR sales	2,609	2,797	(188)	(6.7)
Wholesale market sales	623	325	298	91.7
CHP/renewables sales	-	29	(29)	-
Supply to deregulated customers outside Spain	320	177	143	80.8
Non-mainland compensation	844	858	(14)	(1.6)
Power trading	335	529	(194)	(36.7)
Other sales	82	100	(18)	(18.0)
Regulated revenue from electricity distribution	1,121	1,117	4	0.4
Gas supply	693	595	98	16.5
Other sales and services rendered	372	238	134	56.3
<b>TOTAL</b>	<b>10,433</b>	<b>9,909</b>	<b>524</b>	<b>5.3</b>

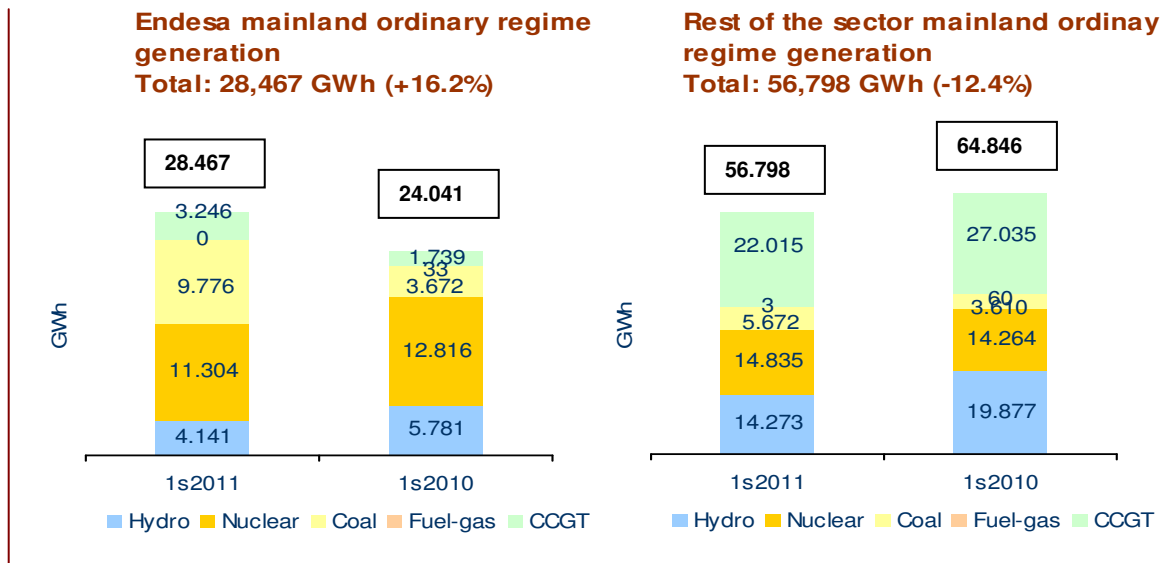
## Electricity sales

Endesa's electricity output in the Spain, Portugal and Other business was up 11.8% year-on-year, at 35,944 GWh in the first half of 2011. Of this amount, 35,240 GWh corresponded to Spain (+12.3%), 226 GWh to Portugal (+35.3%) and 478 GWh to the rest of the segment (-20.7%).

Mainland electricity output in the first half of 2011 was 28,467 GWh, 16.2% higher year-on-year.

Nuclear and hydro energy accounted for 54.3% of Endesa's mainland generation mix under the ordinary regime (75.9% in 1H10), compared with 52.3% for the rest of the sector (59.3% in 1H10).

Endesa's output from non-mainland facilities was 6,773 GWh, a decrease of 1.5% compared to the first half of 2010.



### Supply to deregulated customers

Endesa had 2,134,892 customers in the deregulated market at the end of the first half of 2011: 1,853,037 in the Spanish mainland market, 231,203 on the non-mainland market and 50,652 in European deregulated markets other than Spain.

Endesa sold a total of 37,299 GWh to these customers in the first half of 2011, an increase of 11.3%.

Sales in the Spanish deregulated market totalled Euro 3,434 million, up 9.2% on the first half of 2010. In turn, revenues from sales to customers in deregulated European markets other than Spain rose 80.8% on the first half of 2010 to Euro 320 million.

### Last resort supplier sales

Endesa sold 15,107 GWh through its LRS in the first half of the year, 19.1% lower year-on-year following the transfer of LRT customers to the deregulated market.

These sales generated revenues of Euro 2,609 million, down 6.7% on the same period in 2010.

### Electricity distribution

Endesa distributed 56,971 GWh of electricity in the Spanish market in 1H11, 1.1% lower year-on-year.

Despite the sale of power transmission assets in 2010, regulated revenue from distribution activities amounted to Euro 1,121 million, 0.4% higher year-on-year, thanks to the calculation of distribution remuneration using the methodology stipulated in Royal Decree 222/2008 of 15 February.

### Gas supply

Endesa sold 25,646 GWh on the deregulated natural gas market in the first half of 2011, a year-on-year increase of 27.2%. During 1H11, sales to the Spanish deregulated market amounted to 21,803 GWh.

Revenues from gas sales in the deregulated market rose 16.5% to Euro 693 million.

### Operating expenses

The breakdown of operating expenses in the Spain, Portugal and Other business in the first half of 2011 is provided below:

<b>Operating expenses in Spain, Portugal and Other</b>				
	<b>Euro million</b>			<b>%</b>
	<b>1H11</b>	<b>1H10</b>	<b>Difference</b>	<b>change</b>
Procurements and services	8,033	7,100	933	13.1
Power purchases	3,087	2,561	526	20.5
Fuel consumption	1,188	849	339	39.9
Transmission expenses	2,851	2,792	59	2.1
Other supplies and services	907	898	9	1.0
Personnel expenses	533	568	(35)	(6.2)
Other operating expenses	673	674	(1)	(0.1)
Depreciation & amortisation charges and impairment losses	735	669	66	9.9
<b>TOTAL</b>	<b>9,974</b>	<b>9,011</b>	<b>963</b>	<b>10.7</b>

### Procurements and services (variable costs)

Power purchases stood at Euro 3,087 million, an increase of 20.5% on 1H10. This rise was mainly due to the higher unit cost of these purchases.



Fuel consumption totalled Euro 1,188 million in 1H11, a year-on-year rise of 39.9%, due to higher thermal production during the period.

### **Personnel and other fixed operating expenses**

Fixed costs totalled Euro 1,206 million in the first half of the year, down Euro 36 million (-2.9%) compared to the period ended 30 June 2010.

This change is due to a Euro 35 million reduction in "Personnel expenses" (to Euro 533 million) and a Euro 1 million decrease in "Other operating expenses" (to Euro 673 million).

### **Depreciation & amortisation charges and impairment losses**

Depreciation and amortisation charges and impairment losses totalled Euro 735 million, Euro 66 million less than in 1H10.

### **Financial results: Euro 123 million (-66.8%)**

Net financial results in the six months ended 30 June 2011 included an expense of Euro 123 million, Euro 248 million lower than the figure reported at 30 June 2010.

This variation includes a Euro 31 million drop in net finance expenses, a Euro 147 million increase in financial revenues and a Euro 70 million improvement in net exchange differences (from a loss of Euro 29 million in the first half of 2010 to a gain of Euro 41 million at 30 June 2011).

The year-on-year comparison of net financial expense in the first half of 2011 should take into account the following factors:

- In 1H10, the net financial expense included the negative impact of the restatement of Euro 77 million of finance revenues recorded in previous years resulting from the accrual of interest on the tariff deficit between the effective contribution date and the start of the following year, in accordance with the provisions of Royal Decree Law 6/2010 of 9 April.
- Additionally, the trend in long-term interest rates in the first six months of both 2011 and 2010 required an update of the provisions for obligations relating to the workforce reduction programme currently in force to the amounts of Euro 21 million and Euro -67 million, respectively. These amounts have been recognised in the consolidated income statement under "Net financial results".
- In the first half of 2011 net financial revenues of Euro 27 million were recorded for this business, corresponding to interest associated with the rulings handed down by the National Court on companies belonging to the Endesa tax group in 1998 and 1999.

Net financial debt in the Spain, Portugal and Other business at 30 June 2011 stood at Euro 7,506 million, vs. Euro 10,684 million at year-end 2010.

Of this amount, Euro 6,088 million is financing regulatory receivables, Euro 3,434 million corresponds to the revenues shortfall on regulated activities and Euro 2,654 million to compensation for non-mainland generation.

### Cash flow from operating activities: Euro 1,563 million

Cash flow from operating activities in the Spain, Portugal and Other business totalled Euro 1,563 million in 1H11 compared to Euro 1,303 million in the first half of 2010.

### Investments: Euro 532 million

Investments in the Spain, Portugal and Other business in the first half of 2011 totalled Euro 532 million, as detailed in the following table.

Total investments Business in Spain, Portugal and Other	Euro million		% change
	1H11	1H10	
	Capex	450	
Intangible	54	52	3.8
Financial investments	28	48	(41.7)
<b>TOTAL (*)</b>	<b>532</b>	<b>660</b>	<b>(19.4)</b>

(\*) Excludes investments in non-current assets held for sale and from interrupted activities amounting to Euro 58 million.

Capex Business in Spain, Portugal and Other	Euro million		% change
	1H11	1H10	
	Generation	172	
Distribution	276	328	(15.9)
Other	2	8	(75.0)
<b>TOTAL</b>	<b>450</b>	<b>560</b>	<b>(19.6)</b>

In the Spain, Portugal and Other business, capex for generation includes in one hand the usual maintenance investments, and on the other hand investments in new capacity, mainly the final investments in the combined cycle plants (Besós and Granadilla 2) and the repowering of Almaraz nuclear plant.

Capex in the distribution business relates to investment to expand and optimise the network, in order to improve efficiency and service quality. It also includes investment for the massive installation of smart meters and their associated operating systems.

## **Business in Latin America**

### **Net income in Latin America: Euro 320 million**

Net income in Latin America for the period ended 30 June 2011 amounted to Euro 320 million, a 2.6% improvement on the prior year period.

Nonetheless, the impact of the net worth tax in Colombia should be considered when analysing the net income of the Latin American business. In 2009, Law 1370 was passed in Colombia, resulting in the establishment of a 4.8% net worth tax on liquid assets held at 1 January 2011, payable in eight six-monthly instalments between 2011 and 2014. Furthermore, Decree Law 4825 was enacted on 29 December 2010 establishing a 25% surcharge on the net worth tax calculated in accordance with Law 1370. This tax amounts to Euro 109 million for Endesa Group subsidiaries with registered offices in Colombia, and was accrued in full at 1 January 2011. It was therefore recognised in full during the first half of 2011.

Stripping out the impact of the Colombian net worth tax, net income in Latin America would have risen 14.7%.

EBITDA totalled Euro 1.429 million, a 9.4% decline on the first half of 2010 (-2.5% excluding the Colombian net worth tax) while EBIT was Euro 1.139 million, down 5.7% on 1H10 (+3.3% excluding the Colombian net worth tax).

### **Highlights**

The economic environment in Endesa's Latin American operating markets was positive. Energy demand advanced in all countries, with especially noteworthy increases in Chile (SIC: +9.5%; SING: +6.0%), Peru (+8.7%), Argentina (+5.7%) and Brazil (+2.9%).

In this context, distribution sales by Endesa companies totalled 34,320 GWh, an increase of 4.0% on 1H10, with rises recorded in all countries: Chile (+6.6%), Peru (+7.9%), Colombia (+2.9%), Brazil (+2.4%), and Argentina (+3.1%).

Output in Endesa's generation business advanced 0.5% to 29,751 GWh. By country, output increases were especially strong in Colombia (+8.1%), due to the increase in hydroelectric generation resulting from the "La Niña" phenomenon; Peru (+13.5%); and Argentina (+8.9%). In contrast, output fell in Brazil (-31.5%) due to lower rainfall and the replacement of gas production with purchases in the market; and Chile (-9.4%), affected by the drought in the country's central-southern region.

<b>Electricity generation and sales in Latin American business</b>				
	<b>Output (GWh)</b>		<b>Sales (GWh)</b>	
	<b>1H11</b>	<b>% change 1H10</b>	<b>1H11</b>	<b>% change 1H10</b>
Chile	9,188	(9.4)	6,726	6.6
Argentina	8,717	8.9	8,539	3.1
Peru	4,984	13.5	3,276	7.9
Colombia	5,510	8.1	6,305	2.9
Brazil	1,352	(31.5)	9,474	2.4
<b>TOTAL</b>	<b>29,751</b>	<b>0.5</b>	<b>34,320</b>	<b>4.0</b>

### Unit margins

The unit margin in the generation business declined 8.8% to Euro 26.6/MWh. Improvements were seen in Brazil (+11.5%), Colombia (+15.7%) and Argentina (+2.2%), which partially offset the declines in Chile (-26.7%) and Peru (-0.4%).

The unit margin on distribution activities in 1H11 was Euro 33.8/MWh, a decline of 1.6% compared to 2010. This was mainly due to the better unit margins in Chile (+11.7%) and Colombia (+2.5%), which failed to offset the falls in Argentina (-9.8%), Peru (-5.5%) and Brazil (-4.2%).

### New capacity development

Construction continued in the period on the 370 MW Bocamina II coal-fired plant in Chile, which is due to come on stream in the first quarter of 2012.

Construction of the 400 MW El Quimbo hydroelectric plant in Colombia is in full swing and in February two windows were opened for the construction of the diversion tunnel for the Magdalena river.

Also, on 6 July 2011 the Environmental Impact Study for the Talara thermal plant in Peru (200 MW) was approved. With this approval, the company can now finalise financing and supply contracts for equipment and assembly, with construction due to begin in July. This dual (diesel/natural gas) open cycle plant is slated to come on stream in the first half of 2013.

### Regulatory update

#### Chile

On 17 February 2011, and in light of the prevailing drought, Chile's National Energy Commission (the "NEC") issued a Rationing Decree setting out a series of

measures aimed at guaranteeing supply. This Rationing Decree, which will end on 31 August 2011, includes operational measures such as reducing voltage and maintaining hydro reserves, etc.

On 18 January 2011, Supreme Decree 13/2011 establishing emissions regulations for power plants was signed and subsequently published on 23 June. Highlights of the new text include the need for emissions convergence between new and existing plants by 2020, the recognition of plants under construction as existing assets and the extension of the timeframe for adjustments to be made at existing facilities.

## Brazil

As of the date of approval of this Management Report, the regulator has still not approved the procedures for the Third Cycle of Tariff Reviews for distribution companies. The delay in finalising the methodology for this third cycle of tariff reviews means that the review for Companhia Energética do Ceará, S.A. (hereinafter, "Coelce"), which should have been performed in April 2011, has not been carried out and the existing tariffs shall remain in force until the new methodology is defined.

On 15 March 2011 the annual Tariff Adjustment ("Índice Anual de ajustes de la tarifa", IRT) for Ampla Energia e Serviços, S.A. (hereinafter, "Ampla") was completed, establishing a 10.04% increase for Parcel B (DAV).

On 5 April 2011 the Ministerial Directives 210/2011 and 211/2011 were published in the State Gazette, which equate Compañía de Interconexión Energética, S.A (Cien) with a regulated interconnection line, subject to payment of a regulated toll. The annual remuneration figure (RAP) totals Brazilian real 248 million. It will be adjusted in line with the Brazilian consumer price index (IPCA) in June of each year and is subject to tariff reviews every four years. The concession period runs until June 2020 for Line 1 and until July 2022 for Line 2, with expected compensation for any investments that are not depreciated.

On 8 July the Government published Decree 7.520 rolling out a new "Power for All" programme for the 2011-2014 period. New operations manuals will be published outlining the rules and general framework under which this new scheme will be carried out. It is estimated that under this scheme Coelce and Ampla could attract 15,000 and 2,000 new customers respectively over the next three years.

## EBITDA: Euro 1,429 million

EBITDA in the Latin American business totalled Euro 1,429 million to 30 June 2011, down 9.4% on the same period in 2010. EBIT was Euro 1,139 million, showing a 5.7% decrease on 1H10 (+3.3% excluding the effect of the Colombian net worth tax).

<b>EBITDA and EBIT in the Latin American business</b>					
<b>EBITDA (Euro million)</b>			<b>EBIT (Euro million)</b>		
<b>1H11</b>	<b>1H10</b>	<b>% change</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>

Generation and transmission	751	860	(12.7)	633	672	(5.8)
Distribution	702	726	(3.3)	530	549	(3.5)
Other	(24)	(8)	Na	(24)	(13)	Na
<b>TOTAL</b>	<b>1,429</b>	<b>1,578</b>	<b>(9.4)</b>	<b>1,139</b>	<b>1,208</b>	<b>(5.7)</b>

The breakdown of these results by country is shown below:

<b>EBITDA and EBIT in the Latin American business – Generation and Transmission</b>						
	<b>EBITDA (Euro million)</b>			<b>EBIT (Euro million)</b>		
	<b>1H11</b>	<b>1H10</b>	<b>% change</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
Chile	252	388	(35.1)	190	316	(39.9)
Colombia	174	197	(11.7)	148	168	(11.9)
Brazil	108	103	4.9	96	93	3.2
Peru	131	98	33.7	104	68	52.9
Argentina	69	63	9.5	54	46	17.4
<b>TOTAL GENERATION</b>	<b>734</b>	<b>849</b>	<b>(13.5)</b>	<b>592</b>	<b>691</b>	<b>(14.3)</b>
Brazil-Argentina interconnection	17	11	54.5	41	(19)	n/a
<b>TOTAL GENERATION AND TRANSMISSION</b>	<b>751</b>	<b>860</b>	<b>(12.7)</b>	<b>633</b>	<b>672</b>	<b>(5.8)</b>

<b>EBITDA and EBIT in the Latin American business – Distribution</b>						
	<b>EBITDA (Euro million)</b>			<b>EBIT (Euro million)</b>		
	<b>1H11</b>	<b>1H10</b>	<b>% change</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
Chile	119	84	41.7	97	63	54.0
Colombia	156	180	(13.3)	109	136	(19.9)
Brazil	355	371	(4.3)	279	286	(2.4)
Peru	73	63	15.9	57	47	21.3
Argentina	(1)	28	n/a	(12)	17	n/a
<b>TOTAL DISTRIBUTION</b>	<b>702</b>	<b>726</b>	<b>(3.3)</b>	<b>530</b>	<b>549</b>	<b>(3.5)</b>

## Generation and transmission

### Chile

During the first six months of the year Chile suffered one of the worst droughts in its history. This caused a huge reduction in hydroelectric output that was partially replaced by thermal power which has a much lower margin. Overall, Endesa's generation in Chile shrank 9.4% with unit margins declining 26.7%.

Against this backdrop, EBITDA for the generation business amounted to Euro 252 million in the first six months of the year, down 35.1%, while EBIT totalled Euro 190 million, a 39.9% decline on the same period in the previous year.

## **Colombia**

In Colombia, EBITDA (-11.7%) and EBIT (-11.9%) were affected by the introduction of the net worth tax.

Stripping out this effect, EBITDA and EBIT in 1H11 would have risen by 21.3% and 26.8%, respectively, primarily because of the improvement in output during the period (+8.1%) thanks to good rainfall levels caused by the "Niña" climate phenomenon, lower energy purchase prices to cover sales commitments, and the favourable impact of higher revenues from frequency regulation services.

## **Brazil**

Endesa's investees in Brazil generated a total of 1,352 GWh to 30 June, down 31.5% year-on-year, with decreases at the Fortaleza (thermal) plant primarily due to lack of requirement from the system and the Cachoeira (hydro) plant as a result of lower rainfall levels.

Despite lower generation, the margin on sales covered by spot purchases made to cover contracted demand led to a slight improvement in EBITDA (+4.9%) and EBIT (+3.2%) to Euro 108 million and Euro 96 million, respectively.

## **Peru**

Endesa's investees in Peru generated total output in 1H11 of 4,984 GWh, 13.5% more than in the same period the previous year. Higher spot prices, the activation of new distribution tender contracts and higher sales to regulated customers, triggered a 33.7% rise in EBITDA, to Euro 131 million while EBIT climbed 52.9% to Euro 104 million.

## **Argentina**

In 1H11, output rose 8.9%. Along with better sales margins achieved through the improvements negotiated by generation companies on 25 November 2010 through the Agreement with the Secretary of Energy, this increase drove EBITDA up 9.5% to Euro 69 million from 1H10, with EBIT rising by 17.4% to Euro 54 million.

## **Argentina - Brazil interconnection**

As we have mentioned above, in April the two interconnections linking Brazil and Argentina began to receive regulated remuneration, putting Cien's EBITDA at 30 June 2011 up 54.5% to Euro 17 million.

This, combined with the recovery of receivables from Argentina, for which provisions had previously been made, put EBIT at Euro 41 million for the period.

## Distribution

### Chile

The 6.6% rise in sales volumes pushed up EBITDA and EBIT in the Chilean distribution business by 41.7% and 54.0%, respectively, to Euro 119 million and Euro 97 million.

### Columbia

EBITDA and EBIT in the Colombian distribution business declined by 13.3% and 19.9%, respectively, to Euro 156 million and Euro 109 million.

Stripping out the effect of the net worth tax, both indicators improved (+11.1% and 12.5% respectively) due to higher demand and prices.

### Brazil

EBITDA and EBIT for the six-month period amounted to Euro 355 million and Euro 279 million, down 4.3% and 2.4%, respectively compared to the same period in 2010.

This is largely due to the lower electricity margin at Ampla which was affected by prices but which was partially offset by higher physical sales (+2.4%).

### Peru

Financial indicators in the Peruvian distribution business performed well during the period on the back of a 7.9% rise in sales volumes.

EBITDA climbed 15.9% year-on-year, to Euro 73 million, while EBIT was 21.3% higher at Euro 57 million.

### Argentina

EBITDA for the distribution business in Argentina was a negative Euro 1 million in the first six months of the year compared to a positive Euro 28 million the previous year while

EBIT amounted to a negative Euro 12 million, down Euro 29 million

These declines are due to the company's higher fixed costs triggered by Argentina's rising inflation which it has not been possible to pass on to customers through tariffs.

## Financial results: Euro 177 million (-19.9%)

Financial results at Endesa's Latin American business in the first six months of 2011 amounted to Euro 177 million, a decrease of 19.9% compared to the same period in



2010. Net exchange differences in the period went from a Euro 10 million gain at 30 June 2010 to a Euro 8 million loss in the first half of 2011.

Net finance expense was Euro 169 million in 1H11, down Euro 62 million or 26.8%. Of this amount, Euro 36 million corresponds to the positive effect on this business of the National Court's rulings on Corporate Income Tax for the Endesa Group.

Net debt in Endesa's Latin American business stood at Euro 4,651 million at 30 June 2011, practically unchanged from the previous year.

### Cash flow from operating activities: Euro 822 million

Endesa's business in Latin America generated cash flow of Euro 822 million in 1H11, 18.4% higher than the same period in 2010.

### Investment: Euro 583 million

In 1H11, investment in this business totalled Euro 583 million,

Euro 91 million of which corresponded to financial investments and Euro 492 million to capex and investment in intangible assets, as shown in the table below:

Capex in Latin American business	Euro million		% change
	1H11	1H10	
Generation	235	90	161.1
Distribution and Transmission	118	104	13.5
Other	2	2	-
<b>TOTAL CAPEX</b>	<b>355</b>	<b>196</b>	<b>81.1</b>
<b>Intangible assets (*)</b>	<b>137</b>	<b>114</b>	<b>20.2</b>
<b>TOTAL CAPEX AND INVESTMENT IN INTANGIBLE ASSETS</b>	<b>492</b>	<b>310</b>	<b>58.7</b>

(\*) Comprises investments in the Brazilian distribution business as, given the nature of the concession, the associated assets are classified partly as intangible and partly as financial under IFRIC 12.



## **Statistical appendix**

## Key figures

<b>Electricity Generation Output (GWh)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
Business in Spain, Portugal and Other	35,944	32,143	11.8
Business in Latin America	29,751	29,611	0.5
<b>TOTAL</b>	<b>65,695</b>	<b>61,754</b>	<b>6.4</b>

<b>Electricity Generation Output in Spain and Portugal and Other (GWh)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
<b>Mainland</b>	<b>28,467</b>	<b>24,499</b>	<b>16.2</b>
Nuclear	11,304	12,816	(11.8)
Coal	9,776	3,672	166.2
Hydroelectric	4,141	5,781	(28.4)
Combined cycle (CCGT)	3,246	1,739	86.7
Fuel oil	-	33	n/a
CHP/renewables	-	458	n/a
<b>Non-mainland</b>	<b>6,773</b>	<b>6,874</b>	<b>(1.5)</b>
<b>Portugal</b>	<b>226</b>	<b>167</b>	<b>35.3</b>
<b>Other</b>	<b>478</b>	<b>603</b>	<b>(20.7)</b>
<b>TOTAL</b>	<b>35,944</b>	<b>32,143</b>	<b>11.8</b>

<b>Electricity Generation Output in Latin America (GWh)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
Chile	9,188	10,140	(9.4)
Argentina	8,717	8,008	8.9
Peru	4,984	4,390	13.5
Columbia	5,510	5,098	8.1
Brazil	1,352	1,975	(31.5)
<b>TOTAL</b>	<b>29,751</b>	<b>29,611</b>	<b>0.5</b>

<b>Electricity sales (GWh)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
<b>Business in Spain, Portugal and Other</b>	<b>52,963</b>	<b>52,775</b>	<b>0.4</b>
SLR	15,107	18,668	(19.1)
Deregulated market	37,299	33,504	11.3
Other	557	603	(7.6)
<b>Business in Latin America</b>	<b>34,320</b>	<b>32,997</b>	<b>4.0</b>
Chile	6,726	6,307	6.6
Argentina	8,539	8,279	3.1
Peru	3,276	3,036	7.9
Columbia	6,305	6,126	2.9
Brazil	9,474	9,249	2.4
<b>TOTAL</b>	<b>87,283</b>	<b>85,772</b>	<b>1.8</b>

<b>Gas sales (GWh)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
Regulated market	-	88	n/a
Deregulated market	25,646	20,155	27.2
<b>TOTAL</b>	<b>25,646</b>	<b>20,243</b>	<b>26.7</b>

<b>Closing workforce (number of employees)</b>	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>% change</b>
Business in Spain, Portugal and Other	12,320	12,270	0.4
Business in Latin America	10,922	12,462	(12.4)
<b>TOTAL</b>	<b>23,242</b>	<b>24,732</b>	<b>(6.0)</b>

## Financial data

<b>Key figures (Euro)</b>	<b>1H11</b>	<b>1H10</b>	<b>% change</b>
EPS	1.21	2.00	(39.5)
BVPS <sup>(1)</sup>	17.19	16.79	2.4

(1) At 30 June 2011 and 31 December 2010, respectively.

<b>Net financial debt (Euro million)</b>	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>% change</b>
Business in Spain, Portugal and Other	7,506	10,684	(29.7)
Business in Latin America	4,651	4,652	-
<b>TOTAL</b>	<b>12,157</b>	<b>15,336</b>	<b>(20.7)</b>
Financial leverage (%)	51.9	66.2	n/a

<b>Ratings (29 July 2011)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Outlook</b>
Standard & Poor's	BBB+	A-2	Stable
Moody's	A3	P-2	Stable
Fitch	A	F2	Stable

<b>Endesa's main fixed-income issues</b>	<b>Spread over IRS (bp)</b>	
	<b>30 June 2011</b>	<b>31 December 2010</b>
2Y GBP 400M 6.125% Mat. June 2012	111	128
2.6Y Euro 700M 5.375% Mat. February 2013	53	80

<b>Stock market data</b>	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>% change</b>
Market cap (Euro million)	24,309	20,429	19.0
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Nominal share value (Euros)	1.2	1.2	-

<b>Stock market data (Shares)</b>	<b>January-June 2011</b>	<b>January-June 2010</b>	<b>% change</b>
Trading volume			
Madrid stock exchange	86,906,243	87,316,667	(0.5)
Average daily trading volume			
Madrid stock exchange	684,301	692,984	(1.2)

<b>Share price (Euro)</b>	<b>High January-June 2011</b>	<b>Low January-June 2011</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
Madrid stock exchange	24.05	18.5	22.96	19.295

<b>Dividends (€/share)</b>	<b>Against 2010 earnings</b>
Interim dividend (3 January 2011)	0.500
Final dividend (1 July 2011)	0.517
Total DPS	1.017
Pay-out (%)	26.1
Dividend yield (%)	5.3

## Important legal disclaimer

This document contains certain "forward-looking" statements regarding anticipated financial and operating results and statistics and other future events. These statements are not guarantees of future performance and they are subject to material risks, uncertainties, changes and other factors that may be beyond ENDESA's control or may be difficult to predict.

Forward-looking statements include, but are not limited to, information regarding: estimated future earnings; expected increases in demand for gas and gas sourcing; management strategy and goals; estimated cost reductions; tariffs and pricing structure; estimated capital expenditures and other investments; estimated asset disposals; estimated increases in capacity and output and changes in capacity mix; repowering of capacity and macroeconomic conditions. The main assumptions on which these expectations and targets are based are related to the regulatory setting, exchange rates, divestments, increases in production and installed capacity in markets where ENDESA operates, increases in demand in these markets, assigning of production amongst different technologies, increases in costs associated with higher activity that do not exceed certain limits, electricity prices not below certain levels, the cost of CCGT plants, and the availability and cost of the gas, coal, fuel oil and emission rights necessary to run our business at the desired levels.

In these statements we avail ourselves of the protection provided by the Private Securities Litigation Reform Act of 1995 of the United States of America with respect to forward-looking statements.

The following important factors, in addition to those discussed elsewhere in this document, could cause actual financial and operating results and statistics to differ materially from those expressed in our forward-looking statements:

**Economic and industry conditions:** significant adverse changes in the conditions of the industry, the general economy or our markets; the effect of the prevailing regulations or changes in them; tariff reductions; the impact of interest rate fluctuations; the impact of exchange rate fluctuations; natural disasters; the impact of more restrictive environmental regulations and the environmental risks inherent to our activity; potential liabilities relating to our nuclear facilities.

**Commercial or Transactional Factors:** any delays in or failure to obtain necessary regulatory, antitrust, internal and other approvals for our proposed acquisitions, investments or asset disposals, or any conditions imposed in connection with such approvals; our ability to integrate acquired businesses successfully; the challenges inherent in diverting management's focus and resources from other strategic opportunities and from operational matters during the process of integrating acquired businesses; the outcome of any negotiations with partners and governments. Delays in or impossibility of obtaining the pertinent permits and rezoning orders in relation to real estate assets. Delays in or impossibility of obtaining regulatory authorisation, including that related to the environment, for the construction of new facilities, repowering or improvement of existing facilities; shortage of or changes in the price of equipment, material or labour; opposition of political or ethnic groups; adverse changes of a political or regulatory nature in the countries where we or our companies operate; adverse weather conditions, natural disasters, accidents or other unforeseen events, and the impossibility of obtaining financing at what we consider satisfactory interest rates.

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

**Operating factors:** technical problems; changes in operating conditions and costs; capacity to execute cost-reduction plans; capacity to maintain a stable supply of coal, fuel and gas and the impact of the price fluctuations of coal, fuel and gas; acquisitions or restructuring; capacity to successfully execute a strategy of internationalisation and diversification.

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

Further details on the factors that may cause actual results and other developments to differ significantly from the expectations implied or explicitly contained in this document are given in the Risk Factors section of the current ENDESA Share Registration Statement filed with the Comisión Nacional del Mercado de Valores (the Spanish securities regulator or the "CNMV" for its initials in Spanish).

No assurance can be given that the forward-looking statements in this document will be realised. Except as may be required by applicable law, neither Endesa nor any of its affiliates intends to update these forward-looking statements.