

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

**Consolidated Management Report**  
**For the six-month period ended**  
**30 June 2013**

Madrid, 29 July 2013

**ENDESA, S.A. AND SUBSIDIARIES**  
**MANAGEMENT REPORT**  
**FOR THE SIX MONTH PERIOD ENDED**  
**30 June 2013**

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## **Analysis for the period**

# Consolidated results

## ENDESA reported net income of Euro 1,114 million in 1H13.

ENDESA reported net income of Euros 1,114 million in the first half of 2013, 2.8% less than in the same period the previous year, mainly due to a Euros 170 million reduction in net income at the Spain and Portugal business unit following the introduction on 1 January 2013 of the energy sustainability tax measures stipulated in Law 15/2012 of 27 December which triggered an increase in costs of Euros 310 million, with a negative impact on net income of €217 million in the first half. Additionally, net income was also affected by the annual recurring impact on ENDESA of approximately Euros 400 million arising from the regulatory measures introduced in 2012. This impact does not include the new reform measures to eliminate remaining imbalances in the energy sector adopted by the Council of Ministers on 12 July 2013.

The poor performance of net income in the business in Spain and Portugal was partially offset by the Euros 138 million increase in net income at the business in Latin America. This was largely due to the effects of Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Secretary, which recognised the payment to Empresa Distribuidora Sur, S.A. of Euros 344 million as compensation for the cost increases which had not been passed on to the end user from 2007 to February 2013 in relation to the amounts to be applied under the Cost Monitoring Mechanism (MMC) adjustment, which impacted net income to the sum of Euros 97 million.

The table below shows the breakdown of ENDESA's net income between its two business lines and the year-on-year change:

<b>ENDESA net income, January-June 2013</b>			
	<b>Millions of Euros</b>	<b>% change 1H2013</b>	<b>% of total net income</b>
Spain and Portugal	723	(19.0)	64.9
Latin America	391	54.5	35.1
<b>TOTAL</b>	<b>1,114</b>	<b>(2.8)</b>	<b>100.0</b>

## Electricity generation and sales

ENDESA's electricity generation totalled 61,712 GWh in the first half of 2013, down 13.0% on the same period in 2012. Electricity sales stood at 77,583 GWh, down 3.9% year-on-year.

These were largely affected by the poor performance of the business in Spain and Portugal due to the electricity demand contraction and, in the generation segment, a greater contribution by renewable energies.

	Output		Sales	
	GWh	% change 1H2012	GWh	% change 1H2012
Spain and Portugal	32,807	(19.0)	47,496	(7.6)
Latin America	28,905	(4.9)	30,087	2.4
<b>TOTAL</b>	<b>61,712</b>	<b>(13.0)</b>	<b>77,583</b>	<b>(3.9)</b>

## EBITDA: Euros 3,583 million

EBITDA and EBIT in the first six months of 2013 rose by 1.0% and declined by 2.6%, respectively, to Euros 3,583 million and Euros 2,342 million.

The 1.0% increase in EBITDA in the first half is the result of a 10.1% decline in the business in Spain and Portugal and a 16.1% increase in the Latin America business. These variations were chiefly due to the following:

- EBITDA in Spain and Portugal was reduced by only Euros 207 million despite the negative impact of the fiscal measures approved by Law 15/2012, of 27 December, which prompted a Euros 295 million increase in costs, thanks to the operating improvements achieved in this business area in the first half of 2013.
- The Euros 243 million increase in the Latin America business unit is due to the income received following Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Secretary which recognised payment of Euros 301 million to be applied under the Cost Monitoring Mechanism (MMC) adjustment for cost increases which had not been passed on to the end user between 2007 and February 2013. This positive impact in Argentina was partially offset by the impact of stranded costs affecting distributors in Brazil which were not fully offset by the extraordinary measures adopted by the Brazilian government for their immediate compensation. This amounted to Euros 47 million and will be offset in subsequent tariff reviews in accordance with Brazilian regulations.

The 2.6% decline in EBIT, despite higher EBITDA, is due to the 8.6% increase in "Depreciation and amortisation charges and impairment losses", mainly as a result of the impairment loss of Euros 105 million on CO2 emission allowances and CERs due to the decline in the market price for these instruments. Another factor is the Euros 15 million depreciation of the effect on the value of fixed assets of the tax on spent nuclear fuel approved by Law 15/2012 of 27 December.

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

	Revenues		EBITDA		EBIT	
	Millions of Euros	% change 1H2012	Millions of Euros	% change 1H2012	Millions of Euros	% change 1H2012
Spain and Portugal	10,757	(6.0)	1,833	(10.1)	955	(24.7)
Latin America	5,135	(2.2)	1,750	16.1	1,387	22.2
<b>TOTAL</b>	<b>15,892</b>	<b>(4.8)</b>	<b>3,583</b>	<b>1.0</b>	<b>2,342</b>	<b>(2.6)</b>

### Net financial loss: Euros 171 million

The net financial loss for the first half of 2013 was Euros 171 million, an improvement of Euros 235 million year-on-year.

Net finance expense totalled Euros 167 million, down 55.8% year-on-year, while net exchange losses were Euros 4 million, compared to the loss of Euros 28 million at the end of the first half of 2012.

When analysing net finance expense, the following factors should be taken into account:

- The trend of long-term interest rates in Spain and Portugal in the first six months of 2013 when compared to 2012 meant that provisions had to be adjusted to account for obligations from ongoing headcount restructuring plans for the sums of Euros 7 million (positive) and Euros 42 million (negative), respectively.
- In the Latin America business unit, the recognition of amounts to be applied under the Cost Controlling Mechanism (MMC) adjustment in Argentina generated a net financial gain of Euros 43 million.

Excluding the impacts mentioned above, net finance expense would have declined by Euros 119 million (35.4%), due to the debt reduction over both periods and lower financing costs.

### Cash flow from operating activities: Euros 1,520 million

Cash flow from operating activities in 1H 2013 amounted to Euros 1,520 million compared to Euros 2,251 million in the same period in 2012. This was due to a poorer performance of working capital which includes, inter alia, the Euros 132 million pending collection under the Cost Control Mechanism (MMC) adjustment in Argentina and the Euros 661 million decline in compensation for stranded costs in non-mainland generation.

## Investment: Euros 913 million

Investments totalled Euros 913 million in the first six months of 2013.

Of this amount, Euros 820 million related to capex and investment in intangible assets and the remaining Euros 93 million to financial investments.

<b>Total investment in January-June 2013</b>				
<b>Millions of Euros</b>				
	<b>Capex and intangible assets (1)</b>	<b>Financial investments</b>	<b>TOTAL</b>	<b>% change 1H2012</b>
Spain and Portugal	308	13	321	(35.4)
Latin America	512	80	592	15.0
<b>TOTAL (2)</b>	<b>820</b>	<b>93</b>	<b>913</b>	<b>(9.8)</b>

(1) Excluding CO2 emission rights and CER's

(2) The figures for the 1H 2012 exclude investments in non-current assets held for sale and in discontinued operations amounting to Euros 43 million, and the acquisition of the portfolio of gas customers in the Madrid area for Euros 34 million.

## Financial position

ENDESA had net financial debt of Euros 6,988 million at 30 June 2013, a reduction of Euros 1,790 million compared to 31 December 2012.

This major reduction of debt was largely due to two factors: a cash contribution of Euros 1,796 million by non-controlling shareholders in Enersis, S.A. capital increase completed in March 2013 and the proceeds collected during the first semester of 2013 from previous years accumulated tariff deficit rights in the sum of Euros 1,940 million, of which €1,811 million correspond to tariff deficit collection rights assigned to the electricity system deficit securitisation fund (FADE), which exceeded ENDESA's financing payments in this area over the period of Euros 1,472 million.

It should also be noted that, at June 30, 2013, Euros 1,090 million were placed in financial instruments with maturities of more than three months. These were not included as "Cash and cash equivalents" and therefore financial debt was not netted, and this amount did not make any contribution to the reduction in net debt described in the preceding paragraph.

Also, when assessing indebtedness, it must be remembered that at 30 June 2013, ENDESA had the recognised right to collect Euros 4,279 million in connection with several Spanish regulatory assets: Euros 3,156 million for financing the revenue shortfall from regulated activities and Euros 1,123 million in compensation for stranded costs in non-mainland generation.

Stripping out these regulatory items, ENDESA's net debt at 30 June 2013 stood at Euros 1,619 million, Euros 2013 million less than at 31 December 2012.

The table below shows the structure of net financial debt by businesses up to 30 June 2013:

<b>Breakdown of ENDESA'S net financial debt by business line (*)</b>				
Millions of Euros				
	30 June 2013	31 December 2012	Difference	% change
Spain and Portugal	3,368	5,059	(1,691)	(33.4)
Latin America	3,620	3,719	(99)	(2.7)
<b>TOTAL</b>	<b>6,988</b>	<b>8,778</b>	<b>(1,790)</b>	<b>(20.4)</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 5.8% in 1H 2013, while the cost of debt corresponding to the Enersis Group was an average of 8.0%. Excluding Enersis Group debt, the average cost of ENDESA's debt was 3.3% in the period.

The table below shows the structure of net financial debt at 30 June 2013:

<b>Structure of ENDESA'S net financial debt at 30 June 2013 (Millions of Euros)</b>						
	ENDESA and direct subsidiaries		Enersis		Total ENDESA	
	Millions of Euros	% of total	Millions of Euros	% of total	Millions of Euros	% of total
Euro	3,558	100	-	-	3,558	51
US dollar	(9)	-	1,803	53	1,794	26
Chilean Peso/Unidades de Fomento	-	-	(250)	(7)	(250)	(4)
Brazilian real	-	-	400	12	400	6
Other currency	20	-	1,466	42	1,486	21
<b>TOTAL</b>	<b>3,569</b>	<b>100</b>	<b>3,419</b>	<b>100</b>	<b>6,988</b>	<b>100</b>
Fixed rate	818	23	2,351	69	3,169	45
Floating rate	2,751	77	1,068	31	3,819	55
<b>TOTAL</b>	<b>3,569</b>	<b>100</b>	<b>3,419</b>	<b>100</b>	<b>6,988</b>	<b>100</b>
Avg. life (years)	6.0		5.1		5.5	

As of June 30, 2013, ENDESA's liquidity amounted to Euros 7,031 million in Spain, sufficient to meet the group's total debt repayments over the next 40 months. Of this total, Euros 6,622 million was in undrawn, unconditional credit lines, of which Euros 3,500 million correspond to a credit line signed with ENEL Finance International, N.V.

Meanwhile, Enersis held cash and cash equivalents totalling Euros 1,833 million and Euros 588 million in undrawn, unconditional credit lines, covering debt maturities for the next 25 months. Euros 1,090 million must be added to these sums as the amount placed in financial instruments with maturities of more than three months.



At the date of presentation of this Management Report, ENDESA's long-term debt ratings are: Standard & Poor's:"BBB" with a stable outlook; Moody's:"Baa2" with a negative outlook, and Fitch:"BBB", credit watch negative.

### **Financial leverage**

ENDESA's consolidated equity stood at Euros 28,447 million at 30 June 2013, Euros 2,078 million more than at 31 December 2012, as a result of income earned during the period and the capital contribution by non-controlling shareholders in the Enersis, S.A. share capital increase, adding Euros 1,738 million to ENDESA's consolidated equity.

Euros 21,947 million of consolidated equity correspond to ENDESA, S.A. shareholders and Euros 6,500 million to non-controlling shareholders.

Changes in group equity and net debt resulted in leverage (net financial debt/equity) of 24.6% at 30 June 2013, compared to 33.3% at 31 December 2012.

### **Gains from asset disposals**

On 28 June 2013, ENDESA proceeded to sell its 12% stake Medgaz, S.A. to Compañía Española de Petróleos, S.A. (CEPSA) (which now holds 47%) and Sonatrach S.P.A. (53% stake) in exercise of their pre-emptive rights. The sale price was Euros 84 million and includes the transfer to the buyers of the loan held by ENDESA with Medgaz, amounting to Euros 8 million. Likewise, the purchasers have also released ENDESA from its guarantees with the European Investment Bank resulting from a loan from the latter to Medgaz for which Endesa had posted collateral totalling Euros 94 million.

This sale generated a gross capital gain of Euros 64 million in the Consolidated Income Statement for the first half of 2013.

## **Results by business line**

# **Business in Spain and Portugal**

## **Net income – Spain and Portugal: Euros 723 million**

Net income from ENDESA's Spain and Portugal business unit was Euros 723 million in the first half of 2013, Euros 170 million less than during the same period in 2012, contributing 64.9% to ENDESA's total net income.

EBITDA stood at Euros 1,833 million, down 10.1% year-on-year, while EBIT totalled Euros 955 million, down 24.7%.

The following factors must be taken into account when looking at EBITDA for the period:

- The energy sustainability fiscal measures approved in Law 15/2012 of 27 December directly affecting the electricity sector came into effect in 2013 and had an adverse impact on EBITDA during the first half of the year in the amount of Euros 295 million. This is in addition to the annual recurring impact on ENDESA of approximately Euros 400 million arising from the regulatory measures introduced in 2012 and does not include the new reform measures in the energy sector to eliminate the remaining imbalances in the electricity system adopted by the Council of Ministers on 12 July 2013.
- A better power generation mix due to exceptional rainfall levels, leading to a major increase in hydro output and lower conventional thermoelectric generation, with the net result of lower fuel costs.
- The lower average price on the wholesale electricity market, standing at Euros 38.9/MWh in the first half of 2013, 23.0% lower than the same period in 2012, brought about by the aforementioned exceptional rainfall levels, lowered the average cost of procuring electricity.

Mainland electricity demand shrank by 3.8% year-on-year in the first half of 2013 (-2.6% adjusted for working days and temperature).

During this period, ENDESA obtained a market share of 35.8% in ordinary regime generation, a 42.3% share in distribution and a 37.4% share in sales to customers in the deregulated market.

## **Regulatory update**

From a regulatory perspective, the main highlights during the period were as follows:

### **Law 15/2012 of 27 December on energy sustainability fiscal measures**

On 28 December 2012, the Official State Gazette (BOE) published the law on energy sustainability fiscal measures, which contemplates several measures with a direct impact on the electricity sector applicable as of 1 January 2013:

- General tax on ordinary and special regime generation, equivalent to 7% of total revenues generated.
- Tax on nuclear fuel spent and radioactive waste, and storage at centralised facilities.
- Levy on hydro output, equivalent to 22% of revenues. This levy will be reduced by 90% for plants with installed capacity equal to or less than 50 MW and for pumped-storage hydro plants of over 50 MW. The reduction will also apply to any output or facilities defined by regulations that have to be supported to fulfil general energy policy.
- A "green cent" tax on consumption of electricity generated using natural gas, coal, fuel-oil or diesel.
- Withdrawal of the feed-in tariff for any output from renewable energy plants generated using fossil fuels. This measure will not affect biomass technology.
- Provision has also been made for the General State Budgets Law to earmark an annual sum to fund electricity system costs in an amount equivalent to the sum of estimated revenues from the taxes and levies contemplated in Law 15/2012 and estimated revenues from the auction of greenhouse gas emission allowances, up to a maximum of Euros 500 million.

### **Law 17/2012 of 27 December on 2013 General State Budgets**

On 28 December 2012, the Official State Gazette published the text of the Law on 2013 General State Budgets which, exceptionally for 2013, does not include items to finance 2012 stranded costs for generation in island and non-mainland systems. These will now be financed by the settlement system for regulated businesses and, therefore, access charges.

This legislation also details the items earmarked to cover the electricity system costs indicated in the abovementioned Law 15/2012 of 27 December.

### **Royal Decree Law 29/2012 of 28 December on enhancing management of the special household employee scheme and other social and economic measures**

This Royal Decree Law was published in the Official State Gazette on 31 December 2012 and included the following measures concerning the electricity sector:

- An amendment of the Electricity Sector Act, increasing the size of the tariff deficit in respect of 2012 that can be transferred to the electricity system deficit securitisation fund ("FADE") up to the amount resulting from the definitive settlement of accounts for that year. This legislation also eliminates section one of additional provision twenty-one, which stipulated the elimination of the tariff deficit in 2013.
- In respect of special regime facilities, the legislation stipulates that the feed-in tariff shall not apply to facilities registered in the remuneration pre-assignment register that have not been fully completed within the deadline set in the register itself.

### **Royal Decree Law 2/2013 of 1 February on urgent electricity system and financial sector measures**

This Royal Decree Law amends the mechanism by which regulated remuneration items linked to the Consumer Price Index are updated. It stipulates that this remuneration will be adjusted in accordance with the Consumer Price Index at constant-tax inflation, excluding unprocessed foodstuffs and energy products.

This legislation also modifies the energy sales options available to special regime facilities, such that all facilities shall be deemed to adhere to the tariff option as from 1 January 2013, unless they expressly state the contrary, in which case they may not go back to the feed-in tariff regime, thereby renouncing their right to any premiums whatsoever.

### **Draft legislation on an extraordinary loan to finance economic incentives for new electricity generation facilities using renewable energy sources**

On 15 February 2013, the Council of Ministers agreed to put a draft law through parliament for an extraordinary loan by the Ministry for Finance to the Ministry of Industry, Energy and Tourism in order to finance, as required, renewable energy premiums in respect of 2013, up to a maximum amount of Euros 2,200 million.

### **Draft legislation on security of supply and increase competition in island and non-mainland electricity systems**

On 15 March 2013, the Council of Ministers agreed to put a draft law through parliament to guarantee supply and increase competition in island and non-mainland electricity systems. The main aspects of this draft legislation are as follows:

- For reasons of safety or technical and economic efficiency, an additional remuneration to the mainland spot market price may be given for new generation facilities in the island and non-mainland electricity systems, even if power output required to cover demand is exceeded.
- The new regime will not be applied to new facilities in island and non-mainland electricity systems (either under the ordinary or special regimes) owned by a

company or business group which holds more than 40% of generating power in the system. An exception is made in the case of facilities awarded through capacity tenders for the deployment of renewable energy sources and which hold administrative authorisation or have been registered in the remuneration pre-assignment register for the special regime.

- Pumped-storage hydro plants and regasification plants will be exclusively owned by the System Operator and the Technical System Manager respectively, and the facilities concerned must be transferred within six months at market price. If the facility does not have administrative authorisation, the price will be limited to the total costs actually incurred up to 1 March 2013.
- The remuneration items associated with fuel costs will be established by a mechanism taking account of the principles of competition, transparency, objectivity and non-discrimination.
- A compatibility ruling by the Department of Energy Policy and Mines will be necessary for the approval of new groups, to ascertain that the facility is compatible with the technical criteria stipulated by the System Operator and economic cost-reduction criteria.
- There is a possibility of reducing remuneration at facilities in island and non-mainland electricity systems in the event of a substantial decrease in their availability, the security of supply or the supply quality indexes attributed to generating facilities. It is also possible that the government will take action in the electricity sector to guarantee supply in situations of risk.

## **New reform measures adopted by the Council of Ministers on 12 July 2013.**

On 12 July 2013, the Council of Ministers approved a draft of reform measures for the energy sector to eliminate the imbalances that remain in the electricity system, establish a regulatory framework to ensure its financial stability and improve the system for consumers, clarifying invoicing processes and boosting competitiveness.

The initiatives announced encompass Royal Decree Law 9/2013, of 12 July, adopting urgent measures to ensure the financial stability of the electricity system, published in the Official State Gazette on 13 July 2013, Draft Legislation for the Electricity Sector and a series of development measures that require processing prior to their approval.

The main lines of Royal Decree Law 9/2013, of 12 July, are as follows:

- The reform establishes a new remuneration system for electricity generation facilities which use co-generation, renewable energy sources and waste, which will receive an extra remuneration for their investment costs taking into account the technology used, guaranteeing a reasonable return based on the 10Y treasury bill plus 300 basis points, revised every six years.
- A system has been established for transmission and distribution networks setting standard remuneration based on the 10Y treasury bill plus 200 basis points. However, in 2013 up until the new Royal Decree Law comes into effect, the remuneration specified in Ministerial Order IET/221/2013, of 14 February, will be applied and for the remainder of the year a remuneration rate will be set according to the 10Y treasury bill plus 100 basis points.
- The guarantee limit has been extended to Euros 4,000 million to cover issues associated with the 2012 shortfall, quantified at €4,109 million for transfer purposes.
- The system of investment incentives included in the capacity payments mechanism has been modified, reducing the amount from €26,000 to €10,000/MW, but the period during which these may be received has been extended to double the unexpired term to the end of the ten year period.
- Financing the social bonus by the parent of company groups or companies which carry out energy generation, distribution and supply activities simultaneously, in proportion to the sum of the number of supply points connected to the distribution networks and customers supplied by supply companies, is being considered. Before 15 September 2013, the Spanish Markets and Competition Commission will announce the percentage distribution for financing the social bonus, which will be covered by access charges until that time.
- Within one month after the measure comes into effect, the Ministry of Industry, Energy and Tourism will announce a resolution to review these access charges, with the prior approval of the Government Commission for Economic Affairs.

- The possibility of reviewing access charges exceptionally on a quarterly basis is being considered when circumstances arise that significantly affect regulated costs or the parameters used to calculate these costs.
- The Spanish General State Budget is expected to finance 50% of the compensation received earmarked for island and non-mainland electricity systems.

In addition to the Royal Decree Law, the government has announced other measures to be included in its Draft Legislation for the Electricity Sector and other regulatory developments to be approved. These cover transmission, distribution and generation activities in island and non-mainland systems, renewable energies, self-consumption and capacity payments, in addition to sales and supply, and will include the following:

- Legal framework to ensure financial stability in the system through an automatic review process designed to prevent further imbalances, while at the same time restricting new system costs without an equivalent increase in revenues and restricting the potential appearance of annual imbalances which will be financed by all players receiving revenues from the settlement system. Regional/Local authorities will also be expected to assume any stranded costs generated as a result of regional or local regulations.
- The Last Resort Tariff, which applies to most domestic consumers, will be renamed Voluntary Pricing for Small Consumers, and new supply companies have been set up for these customers, which will be able to compete among themselves with offers and discounts. It also aims to facilitate the process of changing supplier and strengthen customer services while at the same time simplifying and clarifying the invoicing process.
- The most vulnerable consumers will still be eligible for the social bonus discount.
- Other initiatives have also been announced such as the temporary closure of facilities (hibernation) with strict security of supply guarantees, measures to reduce electricity production costs in island and non-mainland systems and incentives for the development of renewable energies in the Canary Islands and Balearic Islands. In relation to the island and non-mainland systems, the proposed Royal Decree establishes an scheme similar to the current one, although amending certain aspects of costs in order to improve system efficiency; the proposed methodology would apply from 2014 , contemplating a transitional period until then; also, develops issues already contained in the Bill on security of supply and increase competition in these systems mentioned above.
- The reform will also reinforce the fight against fraud, modify the tariff structure to reduce average consumer costs and penalising second homes and properties standing empty.



**Law 3/2013, of 4 June, on creating the Spanish Markets and Competition Commission (Comisión Nacional de los Mercados y la Competencia).**

The Law creating the Spanish Markets and Competition Commission was published in the Official State Gazette on 5 June 2013, grouping together in a single entity various existing regulatory bodies, specifically: the National Energy Commission, the Telecoms Market Commission, the National Competition Commission, the Railways Regulatory Committee, the National Postal Sector Commission, the Airport Economic Regulation Commission and the State Council for Audiovisual Media.

With this measure, the government aims to bring together all regulatory supervision and defence of competition functions together in a single institution, in order to streamline structures and maximise economies of scale.

This Commission will be a public entity, a body corporate in itself and completely independent from the government, public administrations and market players. It will be attached to the Ministry of the Economy and Competitiveness, without prejudice to its relationship with other Ministries due to the nature of its functions.

The Council will comprise ten members with a non-extendable mandate of six years, including a Chairman and Vicechairman and members appointed by the government on the proposal of the Minister of Economy and Competitiveness. The candidates put forward must appear before the Congress Economy and Competitiveness Committee before their appointment. Congress will also have veto rights with absolute majority of the corresponding Commission.

The Council will have two sections, one to address competition issues, chaired by the Chairman, and the other to address regulatory supervision issues, chaired by the Vicechairman. Each section will have five members who will be rotated.

As mentioned previously, the new Spanish Markets and Competition Commission will take on the functions carried out until now by the National Energy Commission, although part of these functions will also be carried out directly by the Ministry of Industry, Energy and Tourism, such as the settlement of electricity system costs and factors associated with specific inspections.

## **2013 electricity tariff**

Subsequent to the energy auction, the Department of Energy Policy and Mines' ruling of 27 December 2012 revised the Last-Resort Tariff (LRT) for the first quarter of 2013, increasing it by 3%.

The Ministerial Order for establishing access tariffs from 1 January 2013, IET/221/2013 of 14 February, was published on 16 February 2013. The tariffs remain unchanged. Among other aspects, the Ministerial Order includes the possibility of transferring the 2012 shortfall to the electricity system deficit securitisation fund ("FADE") , based on the result of 14/2012 regulated activity settlements, or including 2011 and 2012 non-mainland compensation not funded by the General State Budgets in settlements for regulated activity in 2012.

Subsequent to the energy auction, the Department of Energy Policy and Mines' ruling of 25 March 2013 revised the LRT for the second quarter of 2013, reducing it by 6.6%.

Similarly, the Department of Energy Policy and Mines' Resolution of 26 June 2013 revised the Last Resort Tariff for the third quarter of 2013, increasing it by 1.3%.

On 14 January 2013, the Official State Gazette published Royal Decree 1718/2012 of 28 December determining the procedure for meter reading and billing of low-voltage energy supplies to customers with a contracted capacity of no more than 15 kW. The Decree stipulates that LRT customers will be billed on a two-monthly basis as of 1 April 2013 according to actual meter readings.

The shortfall between the access tariffs collected during the first quarter of 2013 and the system costs during the same period has led to a revenue deficit in regulated activities of approximately Euros 3,056 million for the sector as a whole. ENDESA must finance 44.16% of this amount. In addition, during the same period, the non-mainland deficit amounted to Euros 818 million, which must be partly covered with a charge to the Spanish General State Budgets for 2014 in accordance with Royal Decree Law 6/2013 of 12 July, and was financed fully by ENDESA at 30 June 2013.

## **Domestic coal**

A ruling of 12 February 2013 by the Institute for the Restructuring of Coal Mining and Alternative Development of Mining Locations ("Instituto para la Reestructuración de la Minería del Carbón y Desarrollo Alternativo de las Comarcas Mineras") approved coal quantities, maximum output and remuneration for 2013 to be applied for the security of supply restrictions resolution process. The ruling was amended by a further ruling on 20 March stipulating the minimum coal quantity to be delivered on a monthly basis - one twelfth of the annual volume.

## Natural gas tariff for 2013

Ministerial Order IET/2812/2012 of 27 December, reviewed access charges from 1 January, introducing a general increase of 1%, while the Department of Energy Policy and Mines' ruling of 28 December 2012 approved reductions to LRT.1 and LRT.2 of 2.5% and 3.7%, respectively.

## Revenue: Euros 10,757 million

In the first half of 2013 ENDESA reported revenues of Euros 10,757 million from its Spain and Portugal business unit, a decrease of 6.0%.

Of this amount, revenues from sales accounted for Euros 10,159 million (-6.1%), while operating income accounted for Euros 598 million (-4.2%).

## Sales

Sales in the Spain and Portugal business unit in the first six months of 2013 were as follows:

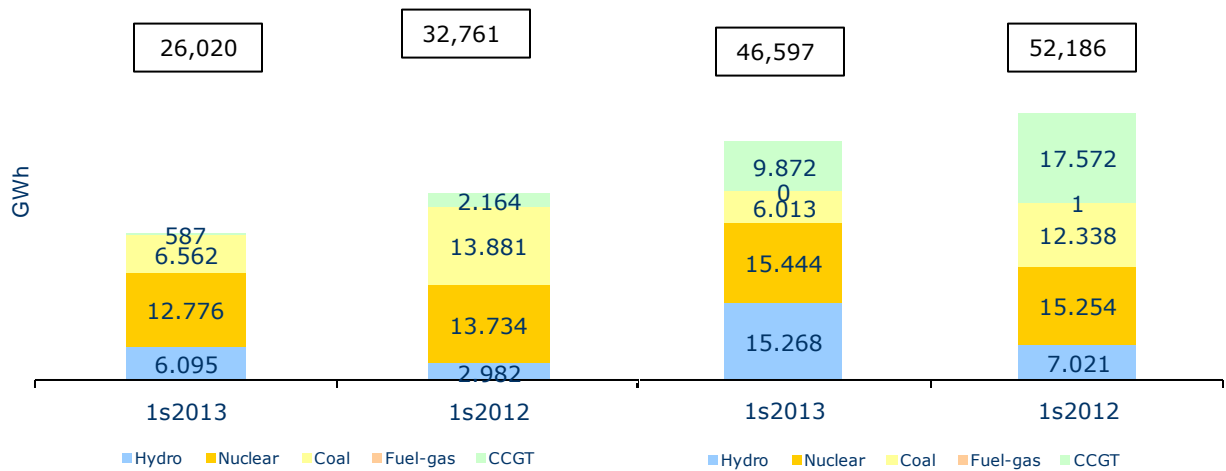
### Sales in the Spain and Portugal business

	Millions of Euros			% change
	Jan-June 2013	Jan-June 2012	Difference	
Electricity sales	7,420	8,299	(879)	(10.6)
Sales to the deregulated market	3,685	3,826	(141)	(3.7)
Sales from Last Resort Supplier	2,047	2,358	(311)	(13.2)
Wholesale market sales	401	650	(249)	(38.3)
Supply to customers in deregulated markets outside Spain	425	403	22	5.5
Non-mainland compensation	815	933	(118)	(12.6)
Power trading	9	37	(28)	(75.7)
Other sales	38	92	(54)	(58.7)
Regulated revenues from electricity distribution	1,077	1,010	67	6.6
Gas trading	1,096	1,014	82	8.1
Other sales and services rendered	566	498	68	13.7
<b>TOTAL</b>	<b>10,159</b>	<b>10,821</b>	<b>662</b>	<b>(6.1)</b>

ENDESA's electricity output in the Spain and Portugal business unit in the first half of 2013 stood at 32,807 GWh, a fall of 19.0% with respect to the first half of 2012. Of this amount, 31,890 GWh corresponded to Spain (-19.0%), 497 GWh to Portugal (-27.1%) and 420 GWh to the rest of the segment (-11.4%).

**ENDESA mainland generation under the ordinary regime**  
**Total: 26,020 GWh (-20.6%)**

**Rest of sector mainland generation under the ordinary regime**  
**Total: 46,597 GWh (-10.7%)**



Mainland ordinary regime output totalled 26,020 GWh in the first half of 2013, 20.6% less than in the first half of 2012. This was due to the major decrease in output at both coal-fired plants (-52.7%) and combined-cycle plants (-72.9%), and was only partially offset by an increase at hydro plants (+104.4%).

Nuclear and hydro energy accounted for 72.5% of ENDESA's mainland generation mix under the ordinary regime (51.0% in January-June 2012), compared with 65.9% for the rest of the sector (42.7% in January-June 2012).

ENDESA's output from non-mainland facilities was 5,870 GWh, a decrease of 11.1% compared to the first half of 2012.

### Supply to deregulated customers

ENDESA had 3,132,150 customers (+21.1%) in the deregulated market at the end of the first half of 2013: 2,989,911 (+19.9%) in the Spanish mainland market and 142,239 (+51.1%) in European deregulated markets other than Spain.

ENDESA sold a total of 36,069 GWh to these customers in the first half of 2013, a decrease of 5.1%.

Sales in the Spanish deregulated market totalled Euros 3,685 million, down 3.7% on 1H 2012.

Revenues from sales to deregulated European markets other than Spain rose 5.5% to Euros 425 million year-on-year.

### **Last resort supplier sales**

ENDESA sold 11,427 GWh through its last resort supplier company in the first half of 2013, 14.6% less than the same period in 2012.

These sales generated revenues of Euros 2,047 million in January-June 2013, down 13.2% year-on-year.

### **Electricity distribution**

ENDESA distributed 54,874 GWh of power in the Spanish market in the first half of 2013, a fall of 4.9% against the same period in 2012.

Regulated revenues from distribution activities, including the reduction in remuneration for the distribution activity established in Royal Decree Law 13/2012 of 30 March, with effect from 1 January 2013, amounted to Euros 1,077 million (+6.6%).

### **Gas supply**

ENDESA sold 34,373 GWh of natural gas to customers in the deregulated market in Spain in the first half of 2013, which represents a 1.0% decrease on the year-ago figure.

Revenues from gas sales in the deregulated market rose by 8.1% to Euros 1,096 million.

## Operating expenses

The breakdown of operating expenses in the Spain and Portugal business unit in the first half of 2013 is as follows:

<b>Operating expenses – Spain and Portugal business</b>				
	<b>Millions of Euros</b>			<b>% change</b>
	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>Difference</b>	
Procurements and services	7,857	8,297	(440)	(5.3)
Power purchased	2,651	2,769	(118)	(4.3)
Cost of fuel consumed	1,247	1,610	(363)	(22.5)
Transmission costs	3,015	3,086	(71)	(2.3)
Other procurements and services	944	832	112	13.5
Personnel expenses	497	490	7	1.4
Other operating expenses	619	670	(51)	(7.6)
Depreciation and amortisation charges and impairment losses	878	771	107	13.9
<b>TOTAL</b>	<b>9,851</b>	<b>10,228</b>	<b>(377)</b>	<b>(3.7)</b>

### Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 7,857 million in the first half of 2013, 5.3% less than in the same period in 2012.

This includes Euros 295 million due to the adverse effect of certain measures in Law 15/2012, of 27 December, which were introduced in 2013.

Despite this negative impact of Law 15/2012, of 27 December, variable costs were lower mainly as a result of the 22.5% reduction in fuel costs to Euros 1,247 million thanks to lower thermal output in the period. The cost of CO<sub>2</sub> emission allowances used during the period, included under "Other procurements and services", amounted to Euros 148 million less than during the first quarter of 2012 as the result of reductions in electricity generation using CO<sub>2</sub> emitting technology and also of the market price of emission allowances. This cost reduction was mostly offset by a reduction of Euros 87 million in income recognised in the 1Q 2012 results from CO<sub>2</sub> emission allowances granted free of charge in the National Allocation Plan.

Lastly, power purchases amounted to Euros 2,651 million in January-June 2013, a 4.3% year-on-year decrease, due to the lower average purchase price.

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

Fixed costs amounted to Euros 1,116 million in the first half of 2013, down Euros 44 million (-3.8%) compared to the same period in 2012 as a result of the cost-savings policy deployed.

Personnel expenses amounted to Euros 497 million, a 1.4% increase over the first semester of 2012, consequence of the impact of workforce reduction costs. However recurrent personnel costs decreased by 3.1% due to wage restraint coupled with a 3.3% workforce average reduction on this division.

Other operating expenses stood at Euros 619 million, or a reduction of Euros 51 million (-7.6%) over the period as a result of the established cost-reduction policy.

## **Depreciation and amortization charges and impairment losses**

Depreciation and amortisation charges and impairment losses totalled Euros 878 million in the first half of 2013, Euros 107 million (+13.9%) more than the same period in 2012.

From January to June 2013 this item included impairment of the CO<sub>2</sub> emission allowance portfolio, following a fall in the market price, in the amount of Euros 105 million and Euros 15 million for depreciation of the effect on the value of fixed assets of the tax on spent nuclear fuel introduced by Law 15/2012 of 27 December.

## **Net financial loss: Euros 62 million**

The net financial loss in the first half of 2013 was Euros 62 million, Euros 72 million less than the same period in 2012.

This was due to a Euros 62 million decline in net finance expense and a Euros 10 million reduction in net exchange differences, which moved from expenditure of Euros 7 million in the first half of 2012 to income of Euros 3 million in the first six months of 2013.

The trend of long-term interest rates in the first six months of 2013 and 2012 meant that provisions had to be adjusted to account for obligations from ongoing workforce restructuring plans for the sums of Euros 7 million (positive) and Euros 42 million (negative), respectively.

Excluding this impact, net finance expense would have declined by Euros 13 million (-15.3%), due to the debt reduction over the period and lower financing costs.

Net financial debt in the Spain and Portugal business unit at 30 June 2013 stood at Euros 3,368 million vs. Euros 5,059 million at year-end 2012. Of this amount, Euros 4,279 million were incurred to finance regulatory receivables: Euros 3,156 million to finance the revenue shortfall from regulated activities and Euros 1,123 million to fund the non-mainland generation stranded costs.

## Cash flow from operating activities: Euros 806 million

Cash flow from operating activities in the Spain and Portugal business unit totalled Euros 806 million in the first half of 2013, compared to Euros 1,729 million in the same period the previous year.

This decrease was due to a fall in income during the period and a poorer performance of working capital, largely due to the Euros 661 million decline in compensation for stranded costs in non-mainland generation.

## Investment: Euros 321 million

Investment in the Spain and Portugal business unit in the first half of 2013 totalled Euros 321 million, as detailed in the following table:

<b>Capex in the Spain and Portugal business</b>	<b>Millions of Euros</b>		<b>% change</b>
	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	
Generation	89	123	(27.6)
Distribution	196	302	(35.1)
Other	1	-	N/A
<b>TOTAL CAPEX</b>	<b>286</b>	<b>425</b>	<b>(32.7)</b>
<b>Intangible assets <sup>(1)</sup></b>	<b>21</b>	<b>37</b>	<b>(43.2)</b>
<b>Investment property</b>	<b>1</b>	<b>-</b>	<b>N/A</b>
<b>Financial investments</b>	<b>13</b>	<b>35</b>	<b>(62.9)</b>
<b>TOTAL <sup>(2)</sup></b>	<b>321</b>	<b>497</b>	<b>(35.4)</b>

(1) Excluding CO2 emission rights and CER's

(2) The figures for 1H 2012 exclude investments in non-current assets held for sale and in discontinued operations amounting to Euros 43 million, and the acquisition of the portfolio of gas customers in the Madrid area for Euros 34 million.

In the Spain and Portugal business unit, first half 2013 generation capex largely relates to maintenance investments. Investments in distribution relate to network extensions and expenditure aimed at optimising the network for greater efficiency and quality of service. It also includes investment for the widespread installation of smart meters and their associated operating systems.



# **Business in Latin America**

## **Net income in Latin America: Euros 391 million**

Net income in ENDESA's Latin America business unit in the first half of 2013 was Euros 391 million, representing a 54.5% increase against the first half of 2012 and a contribution to ENDESA's total net income of 35.1%.

EBITDA stood at Euros 1,750 million, up 16.1% year-on-year.

EBIT amounted to Euros 1,387, a 22.2% increase year-on-year.

These increases were largely due to the effects of Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Secretary, which recognised the payment to Empresa Distribuidora Sur, S.A. of compensation for the cost increase which had not been passed on to the end user from 2007 to February 2013 in application of the amounts to be applied under the Cost Monitoring Mechanism (MMC) adjustment. This meant that Empresa Distribuidora Sur, S.A. recorded a Euros 301 increase in operating revenues plus Euros 43 million in net finance income in the first half of 2013, with a Euros 97 million impact on net income.

This was partially offset by the impact of stranded costs incurred by the distribution companies in Brazil on energy purchases during the period, which could not be recovered by the extraordinary measures adopted by the Brazilian government to compensate distribution companies immediately for this exceptional situation.

Pursuant to Presidential Decree 7.945/2013, compensation for these stranded costs totalled Euros 196 million compared to stranded costs incurred to 30 June 2013 of Euros 243 million. Therefore, the amount not covered by the government's extraordinary measures was Euros 47 million. This amount will be recovered in the usual manner stipulated in Brazil's electricity regulations, i.e. it will be taken into account in subsequent tariff reviews.

## Highlights

The economic environment in the countries in which ENDESA companies operated showed an increase in demand for electricity during the first six months of 2013, with demand up in Peru (+5.7%) and Chile (+2.9% SIC and +3.8% SING), Colombia (+2.7%), Argentina (+1.0%) and Brazil (+0.9%).

Against this backdrop, distribution sales by ENDESA companies, excluding tolls and unbilled consumption, totalled 30,087 GWh, an increase of 2.4% on the first half of 2012, with increases in Brazil (+4.8%), Chile (+3.8%), Peru (+2.1%), and Colombia (+0.6%) and a decrease in Argentina (-0.5%) alone.

Output across ENDESA's generation business declined 4.9% to 28,905 GWh: Peru (-10.3%), Argentina (-7.6%), Brazil (-6.5%), Chile (-2.6%) and Colombia (-0.5%).

<b>Electricity generation and sales in Latin America</b>				
	<b>Generation (GWh)</b>		<b>Distribution (GWh)</b>	
	<b>Jan-June 2013</b>	<b>% change 1H2012</b>	<b>Jan-June 2013</b>	<b>% change 1H2012</b>
Argentina	6,825	(7.6)	7,116	(0.5)
Brazil	2,216	(6.5)	9,266	4.8
Chile	9,305	(2.6)	6,408	3.8
Colombia	6,366	(0.5)	4,062	0.6
Peru	4,193	(10.3)	3,235	2.1
<b>TOTAL</b>	<b>28,905</b>	<b>(4.9)</b>	<b>30,087</b>	<b>2.4</b>

## Unit margins

The unit margin in the generation business rose by 6.1% in the first half of 2013 to Euros 27.1/MWh. Improvements were observed in Argentina (+19.0%), Chile (+8.8%), Colombia (+8.1%) and Peru (+2.4%), partially offset by unit margin contractions in Brazil (-7.1%).

The unit margin in the distribution business in the first half of 2013 was €40.6/MWh, up 15.1% year-on-year due to increase seen in Argentina (+251.3%) deriving from the one-off recognition of the Cost Controlling Mechanism (MMC) between 2007 and February 2013. In all other countries the unit margin on distribution activities decreased: Brazil (-14.1%), Chile (-6.7%), Peru (-4.6%) and Chile (-0.6%).

## **New capacity development**

At the El Quimbo hydro plant in Colombia (400 MW), work continued on securing agreements with the local residents and contracts to be able to commence work on the dam. Agreements have nearly been reached with the residents living in the area surrounding the dam as well as non-residents and a contract has been awarded to rebuild alternative routes on the reservoir area. The agreement with the local population has enabled the civil engineering contractor (Impregilo-OHL consortium) to continue moving earth to finish filling the dam.

At the Talara 183 MW dual open-cycle plant (diesel/natural gas) in Peru, tests were carried out during the year prior to the plant being commissioned on the date of publication of this Consolidated Management Report.

## **Regulatory developments**

### **Argentina**

Resolution 95/2013 was published in the Official State Gazette on 26 March 2013, establishing a new regulatory framework for the generation of electricity, based on a scheme to pay fixed costs and variable costs, with a stipulation for additional remuneration. The new regulatory framework also stipulates that Compañía Administradora del Mercado Mayorista Eléctrico, S.A. ("CAMMESA") will take over management of fuels and long-term market management on expiry of the current contracts.

Concerning the distribution business, on 7 May 2013, Argentina's Energy Secretary approved Resolution 250/2013 which recognised payment of compensation to be applied under the Cost Monitoring Mechanism (MMC) adjustment for cost increases which had not been passed on to the end user from 2007 to February 2013, in addition to the amounts already received under the Rational Use of Electricity Programme (PUREE) and other obligations with Compañía Administradora del Mercado Mayorista Eléctrico (CAMMESA). This resolution has generated Euros 301 million at EBITDA level and a net financial gain of Euros 43 million on the consolidated income statement for the first half of 2013.

Also, on 10 May 2013, the Argentine Electricity Sector Regulator (hereinafter "ENRE") notified Empresa Distribuidora Sur, S.A. of provision 25/13 of Ruling 108114 whereby it would extend its inspection of the company, increasing this from 45 to 90 days, i.e. finishing on 19 September 2013.

## **Brazil**

Law 12.783 transforming Provisory Measure 579 approved in September 2012 was introduced on 14 January 2013. This defines the terms of renovation of concessions and reduction of tariffs following the withdrawal of sector taxes. Pursuant to this law, on 25 January 2012, the Brazilian regulator, Agência Nacional de Energia Elétrica (hereinafter "ANEEL") approved an extraordinary tariff review with an average 20% reduction in tariffs for regulated customers, as the result of lower energy costs arising from the renovation of generation and transmission concessions, and of a reduction in tariff charges.

On 8 March 2013, Presidential Decree 7.945/2013 was published in the Official State Gazette, authorising the transfer of government funds to distributors in payment of part of the additional costs incurred by distributors from the dispatch of thermal power and contractual exposure on the spot market. Additional costs not immediately compensated by the government will be recovered through the tariff as stipulated in the regulations. The additional costs may also be recouped through the tariff or through further transfers of funds, as defined by ANEEL in the respective tariff adjustments. Compensation for these stranded costs totalled Euros 196 million in the first half of 2013 compared to stranded costs incurred to 30 June 2013 of Euros 243 million. The amount not covered by the extraordinary measures implemented by the Brazilian government will be recovered by the distribution companies in the usual manner established by the Brazilian electricity regulation, i.e., taken into account in future tariff revisions.

On 11 March 2013, Agência Nacional de Energia Elétrica approved an extraordinary postponement to 15 April 2013 of the tariff adjustment for Ampla Energia e Serviços, S.A., initially scheduled for 15 March. Once in force (15 April 2013), the VAD rate (distribution value added) will increase by an average of 7.8%.

Also, on 19 April 2013, ANEEL approved the annual tariff adjustment for Companhia Energética do Ceará, S.A. (Coelce) with the new tariffs suffering an average increase in VAD of 5.5% as of 22 April.

## **Chile**

On 2 April 2013, a Decree was published in the Official State Gazette establishing the tariff formulae applicable to regulated users of Chilectra, S.A. It made provision for an effective 4.5% reduction of tariffs, chiefly through efficiency gains, among other aspects. The new tariffs will be applicable retroactively from 4 November 2012.

Another pending Decree was finally published on 9 April 2013 establishing the subtransmission tariffs also applicable to Chilectra, S.A. The new tariffs, which have zero impact, are applicable retroactively from 1 January 2011.

### **Share capital increase by Enersis, S.A.**

At an Extraordinary Meeting held on 20 December 2012, the shareholders of Enersis, S.A. approved the issuance of 16,441,606,297 shares at a price of 173 Chilean pesos each. The issue was fully subscribed on 28 March 2013 in the total equivalent amount of Euros 4,562 million, of which Euros 1,796 million were accounted for by a cash contribution by non-controlling shareholders.

ENDESA subscribed its portion of the capital increase with a contribution of 100% of the equity of Cono Sur Participaciones, S.L.U., the company holding its direct interests in the region, with the exception of holdings in Enersis, S.A. and in Empresa Propietaria de la Red, S.A.

As a result of the capital increase, all ENDESA's South American shareholdings have been concentrated in Enersis, S.A., and this company has been provided with the necessary resources to deploy a major growth and expansion plan throughout the region.

On 1 July 2013, Inversiones Sudamérica Limitada took over Cono Sur Participaciones, S.L.U. resulting in the latter being wound up. This transaction will not impact ENDESA's consolidated financial statements.

### **Share capital increase by Endesa Costanera, S.A.**

On 5 April 2013, the Shareholders' Assembly of ENDESA Costanera S.A. passed a resolution to increase capital for the amount of up to 555 millions of Argentine pesos (equivalent to Euros 79 million) and, subsequently issue up to 555,000,000 new ordinary shares of book-entry type with a nominal value of one Argentine peso per share and one voting right per share.

At the date of publication of these Consolidated Management Report is pending approval by the Comisión Nacional de Valores (CNV).

Once authorisation has been obtained from the Argentine stock market regulator, the period for exercising preferential subscription rights will start, running for ten days from that date.

## EBITDA: Euros 1,750 million

ENDESA's Latin American business reported EBITDA of Euros 1,750 million in the first half of 2013, up 16.1% year-on-year.

The Euros 60 million decrease in EBITDA was due to exchange rate trends between the euro and local currencies in ENDESA's operating markets. EBIT stood at Euros 1,387 million, a 22.2% increase on the figure reported in the first half of 2012.

The breakdown of by ENDESA's various businesses is as follows:

<b>EBITDA and EBIT from business in Latin America</b>						
	<b>EBITDA (Millions of Euros)</b>			<b>EBIT (Millions of Euros)</b>		
	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Generation and Transmission	778	741	5.0	596	569	4.7
Distribution	994	781	27.3	813	580	40.2
Other	(22)	(15)	N/A	(22)	(14)	N/A
<b>TOTAL</b>	<b>1,750</b>	<b>1,507</b>	<b>16.1</b>	<b>1,387</b>	<b>1,135</b>	<b>22.2</b>

The breakdown by countries in which ENDESA operates is as follows:

<b>EBITDA and EBIT from business in Latin America – Generation and Transmission</b>						
	<b>EBITDA (Millions of Euros)</b>			<b>EBIT (Millions of Euros)</b>		
	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Argentina	31	23	34.8	9	2	350.0
Brazil	110	121	(9.1)	100	110	(9.1)
Chile	167	153	9.2	89	89	-
Colombia	314	278	12.9	285	247	15.4
Peru	119	124	(4.0)	87	92	(5.4)
<b>TOTAL GENERATION</b>	<b>741</b>	<b>699</b>	<b>6.0</b>	<b>570</b>	<b>540</b>	<b>5.6</b>
Brazil-Argentina interconnection	37	42	(11.9)	26	29	(10.3)
<b>TOTAL GENERATION AND TRANSMISSION</b>	<b>778</b>	<b>741</b>	<b>5.0</b>	<b>596</b>	<b>569</b>	<b>4.7</b>

<b>EBITDA and EBIT from business in Latin America – Distribution</b>						
	<b>EBITDA</b> <b>(Millions of Euros)</b>			<b>EBIT</b> <b>(Millions of Euros)</b>		
	<b>Jan- June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Argentina	237	(27)	N/A	225	(39)	N/A
Brazil	314	355	(11.5)	241	267	(9.7)
Chile	138	134	3.0	112	108	3.7
Colombia	233	245	(4.9)	182	189	(3.7)
Peru	72	74	(2.7)	53	55	(3.6)
<b>TOTAL DISTRIBUTION</b>	<b>994</b>	<b>781</b>	<b>27.3</b>	<b>813</b>	<b>580</b>	<b>40.2</b>

## Generation and transmission

### Argentina

Lower output (-7.6%) during the first half of 2013 was offset by higher unit margins (+19.0%) due to the application of the new regulatory framework, while EBITDA advanced 34.8% year-on-year to Euros 31 million.

EBIT over the period totalled Euros 9 million, a 350.0% increase against the same period the previous year.

### Brazil

ENDESA's investees in Brazil generated a total of 2,216 GWh in the first half of 2013, down 6.5% with respect to the same period in 2012, with a fall in generation at the Cachoeira plant due to lower rainfall, and an increase at the Fortaleza plant owing to greater demand within the system.

Lower generation activity and unit margins (-7.1%) caused EBITDA and EBIT in the period to decline 9.1% to Euros 110 millions and Euros 100 million, respectively.

### Chile

At 30 June 2013, EBITDA for the generation business in Chile had advanced Euros 14 million (+9.2%) to Euros 167 million.

Despite the unfavourable rainfall conditions in Chile, electricity generation by investees in the country declined by only 2.6% (9,305 GWh) compared to the same period the previous year, due to a greater thermal dispatch caused by the commencement of operations at the Bocamina II power plant. This situation, and a better unit margin (+8.8%), helped boost generation EBITDA as previously mentioned. EBIT over the period totalled Euros 89 million, unchanged from the same period the previous year.

## **Colombia**

Lower output in Colombia during the period caused by lower rainfall (-0.5%) was offset by the positive impact of a wider unit margin (+8.1%).

Generation EBITDA and EBIT rose by Euros 36 million and Euros 38 million year-on-year respectively in the first half of 2013, to Euros 314 million and Euros 285 million.

## **Peru**

The total amount of electricity generated by ENDESA investees in Peru stood at 4,193 GWh in the first half of 2013, down 10.3% on the same period the previous year.

Lower output during the period was not offset by a wider unit margin (+2.4%), and this brought about a 4.0% decline in EBITDA to Euros 119 million, and a 5.4% contraction in EBIT to Euros 87 million.

## **Argentina - Brazil interconnection**

EBITDA and EBIT were Euros 37 and 26 million respectively in the first half of 2013, representing decreases of Euros 5 and 3 million against the same period in 2012.

The negative impact of both these figures against the same period the previous year is due to exchange rate trends between the euro and local currencies.

## **Distribution**

### **Argentina**

Application of Resolution 250/2013 approved on 7 May 2013 by the Energy Secretary resulted in income of Euros 301 million which offset the negative EBITDA from the first half of 2012, putting the figure at Euros 237 million at 30 June 2013 compared to a negative Euros 27 million the previous year.

Stripping out this income, EBITDA would have been a negative Euros 64 million, continuing the erosion seen in the distribution business in Argentina as a result of rising costs due to inflation which are not being passed onto customers through tariffs. This demonstrates the need to pass on recurring rising costs under the Cost Monitoring Mechanism (MMC) adjustment.

The business also registered a gain at the EBIT level of Euros 225 million, compared to the loss of Euros 39 million during the same period the previous year.



## **Brazil**

EBITDA and EBIT for the first half of 2013 stood at Euros 314 million (-11.5%) and Euros 241 million (-9.7%) respectively.

This fall was due to the stranded costs incurred by distributors from the dispatch of thermal power and contractual exposure on the spot market, which could not be immediately compensated through the mechanism established by Presidential Decree 7,945/2013. The stranded costs not compensated through Presidential Decree 7,945/2013 totalled Euros 47 million, which will be recouped in the tariff after future tariff reviews, as stipulated in Brazilian regulations.

## **Chile**

The increase in sales volumes (+3.8%), brought about by rising demand, has outweighed higher fixed costs. EBITDA in the distribution business totalled Euros 138 million in the first half of 2013, up 3.0% year-on-year while EBIT advanced 3.7% to Euros 112 million in the same period.

## **Colombia**

EBITDA and EBIT in the first six months of 2013 declined by 4.9% and by 3.7%, respectively, to Euros 233 million and Euros 182 million.

Despite the higher demand in Colombia (+2.7%), EBITDA and EBIT were reduced due to the moderate increase in demand in the city of Bogotá (+1.5%), physical sales volumes (+0.6%), and a lower unit margin (-6.7%).

## Peru

Financial indicators in the distribution business in Peru saw a moderate decline in January-June despite the rise in demand (+5.7%) and sales volumes (+2.1%) and fuelled by a lower unit margin (-4.6%).

This put EBITDA at Euros 72 million, down 2.7% on the same period in 2012 and EBIT at Euros 53 million, a 3.6% decline on the first half of 2012.

### **Net financial loss: Euros 109 million**

ENDESA's Latin America business generated a net financial loss of Euros 109 million in the first half of 2013, showing a fall of 59.9% against the same period in 2012. Net finance expense for the period was Euros 102 million, down Euros 149 million or 59.4%.

When analysing this trend, it must be remembered that the business in Argentina generated net financial income of Euros 43 million due to recognition of the amounts to be applied under the Cost Monitoring Mechanism (MMC) adjustment.

Stripping out this impact, net finance expense would have totalled Euros 106 million (-42.2%) due to the decrease in average debt and the average cost of debt compared to the first half of 2012.

Net exchange losses of Euros 7 million were recorded between January and June 2013, compared to losses of Euros 21 million in the first half of 2012.

The net debt of ENDESA's Latin American business stood at Euros 3,620 million at 30 June 2013, a fall of Euros 99 million since year-end 2012.

### **Cash flow from operating activities: Euros 714 million**

ENDESA's business in Latin America generated a net cash flow of Euros 714 million to 30 June 2013, compared to Euros 522 million the previous year.

This increase is largely due to the increase in income during the period.

## Investment: Euros 592 million

Investment in this business unit stood at Euros 592 million in the first half of 2013.

Of this amount, Euros 80 million corresponded to financial investments, and Euros 512 million to capex and investments in intangible assets, as shown in the table below:

<b>Capex and Investment in Tangible and Intangible Assets in Latin America</b>			
	<b>Millions of Euros</b>		<b>% change</b>
	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	
Generation	225	189	19.0
Distribution and transmission	166	136	22.1
Other	1	1	-
<b>TOTAL CAPEX</b>	<b>392</b>	<b>326</b>	<b>20.2</b>
<b>Intangible assets (*)</b>	<b>119</b>	<b>115</b>	<b>3.5</b>
<b>Investment property</b>	<b>1</b>	<b>1</b>	<b>-</b>
<b>TOTAL</b>	<b>512</b>	<b>442</b>	<b>15.8</b>

(\*) Includes 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 assets under IFRIC 12.

## **Statistical appendix**

## Key figures

<b>Electricity generation output (GWh)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Business in Spain and Portugal	32,807	40,518	(19.0)
Business in Latin America	28,905	30,386	(4.9)
<b>TOTAL</b>	<b>61,712</b>	<b>70,904</b>	<b>(13.0)</b>

<b>Electricity generation output in Spain and Portugal (GWh)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
<b>Mainland</b>	<b>26,020</b>	<b>32,761</b>	<b>(20.6)</b>
Nuclear	12,776	13,734	(7.0)
Coal	6,562	13,881	(52.7)
Hydroelectric	6,095	2,982	104.4
Combined cycle (CCGT)	587	2,164	(72.9)
<b>Non-mainland</b>	<b>5,870</b>	<b>6,601</b>	<b>(11.1)</b>
<b>Portugal</b>	<b>497</b>	<b>682</b>	<b>(27.1)</b>
<b>Other</b>	<b>420</b>	<b>474</b>	<b>(11.4)</b>
<b>TOTAL</b>	<b>32,807</b>	<b>40,518</b>	<b>(19.0)</b>

<b>Electricity generation output in Latin America (GWh)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Argentina	6,825	7,390	(7.6)
Brazil	2,216	2,371	(6.5)
Chile	9,305	9,554	(2.6)
Colombia	6,366	6,396	(0.5)
Peru	4,193	4,675	(10.3)
<b>TOTAL</b>	<b>28,905</b>	<b>30,386</b>	<b>(4.9)</b>

<b>Electricity sales (GWh)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>47,496</b>	<b>51,389</b>	<b>(7.6)</b>
LRS	11,427	13,383	(14.6)
Deregulated market	36,069	38,006	(5.1)
<b>Business in Latin America</b>	<b>30,087</b>	<b>29,372</b>	<b>2.4</b>
Argentina	7,116	7,152	(0.5)
Brazil	9,266	8,841	4.8
Chile	6,408	6,173	3.8
Colombia	4,062	4,039	0.6
Peru	3,235	3,167	2.1
<b>TOTAL</b>	<b>77,583</b>	<b>80,761</b>	<b>(3.9)</b>

<b>Gas sales (GWh)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Deregulated market (*)	34,373	34,718	(1.0)
<b>TOTAL</b>	<b>34,373</b>	<b>34,718</b>	<b>(1.0)</b>

(\*) Excluding own generation consumption.

<b>Period-end headcount (number of employees)</b>	<b>30 June 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Business in Spain and Portugal	11,290	11,506	(1.9)
Business in Latin America	11,494	11,301	1.7
<b>TOTAL</b>	<b>22,784</b>	<b>22,807</b>	<b>(0.1)</b>

<b>Period-end headcount (number of employees)</b>	<b>30 June 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Business in Spain and Portugal	11,399	11,787	(3.3)
Business in Latin America	11,426	11,196	2.1
<b>TOTAL</b>	<b>22,825</b>	<b>22,983</b>	<b>(0.7)</b>

## Financial data

<b>Key figures (Euros)</b>	<b>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
EPS <sup>(1)</sup>	1.05	1.08	(3.3)
BVPS <sup>(2) (3)</sup>	20.72	18.84	10.0

(1) Parent company's profit for the year / No. shares.

(2) Equity attributable to equity holders of the parent / No. shares.

(3) At 30 June 2012.

<b>Net financial debt (Millions of Euros)</b>	<b>30 June 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Business in Spain and Portugal	3,368	5,059	(33.4)
Business in Latin America	3,620	3,719	(2.7)
<b>TOTAL</b>	<b>6,988</b>	<b>8,778</b>	<b>(20.4)</b>
Financial leverage (%) <sup>(1)</sup>	24.6	33.3	-

(1) Net finance debt / Net equity.

<b>Ratings (29 July 2013)</b>	<b>Long- term</b>	<b>Short- term</b>	<b>Outlook</b>
Standard & Poor's	BBB	A-2	Stable
Moody's	Baa2	P2	Negative
Fitch	BBB+	F2	Credit Watch Negative

<b>Ratings (24 July 2012)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Outlook</b>
Standard & Poor's	BBB+	A2	Stable
Moody's	Baa1	P2	Credit Watch Negative
Fitch	A-	F2	Credit Watch Negative

<b>Stock market data</b>	<b>30 June 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Market cap (Millions of Euros)	17,374	17,861	(2.8)
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>Jan-June 2013</b>	<b>Jan-June 2012</b>	<b>% change</b>
Trading volume			
Madrid stock exchange	67,827,300	94,307,626	(28.08%)
Average daily trading volume			
Madrid stock exchange	542,618	742,580	(26.93%)

<b>Share price (Euros)</b>	<b>High Jan- June 2013</b>	<b>Low Jan-June 2013</b>	<b>30 June 2013</b>	<b>31 December 2012</b>
Madrid stock exchange	18.87	16.105	16.41	16.87