

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

**Consolidated Management Report for  
the year ended 31 December 2013**

# ENDESA, S.A. AND SUBSIDIARIES

## CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

### Contents

1. Position of the Entity .....	4
1.1. Main Areas of Business .....	4
1.2. Main Markets .....	5
1.3. Organisational Structure.....	5
2. Business Trends and Results in 2013 .....	8
2.1. Consolidated Results .....	8
2.2. Results by Business Lines .....	12
2.2.1. Business in Spain and Portugal.....	12
2.2.2. Business in Latin America .....	26
2.3. Statistical Appendix .....	37
3. Liquidity and Capital Resources .....	41
3.1. Financial Management.....	41
3.2. Capital Management .....	44
3.3. Credit Rating Management .....	45
3.4. Cash Flows .....	46
3.5. Contractual Obligations and Off-Balance Sheet Operations .....	47
4. Events after the Reporting Period .....	47
5. Outlook .....	48
5.1. Strategy .....	48
5.2. Outlook .....	48
6. Main Risk Factors and Uncertainties in connection with ENDESA Business.....	50
6.1. Business and Sector-related Risk Factors.....	50
6.2. Risk Factors associated with Countries in which ENDESA operates .....	53

6.3. Operational Risks .....	53
6.4. Financial Risks .....	54
6.5. Other Risks.....	57
7. Risk Management Policy and Use of Derivative Financial Instruments .....	57
8. Technology, Innovation and Environmental Protection.....	58
8.1. R+D+i Activities .....	58
8.2. Environmental Protection.....	65
9. Human Resources.....	70
10. Treasury Shares .....	73
11. Other Information .....	73
11.1. Stock Market Information .....	73
11.2. Dividend Policy.....	75
12. Annual Corporate Governance Report as per Article 538 of Royal Decree Law 1/2010 of 2 July approving the revised text of the Spanish Corporate Enterprises Act ("Ley de Sociedades de Capital") .....	76
13. Proposed Distribution of Profit.....	76
 APPENDIX I: Annual Corporate Governance Report.....	 77

# **ENDESA, S.A. AND SUBSIDIARIES**

## **CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2013**

*ENDESA drew up this Consolidated Management Report for the year ended 31 December 2013 in accordance with the "Guidelines for drawing up Management Reports of Listed Companies" issued by the Group of Experts appointed by the Spanish Securities Market Commission ("CNMV").*

### **1. Position of the Entity**

#### **1.1. Main areas of Business**

ENDESA, S.A. was incorporated on 18 November 1944, and its registered office is in Madrid, calle Ribera del Loira 60.

Its corporate purpose is the electricity business in all its various industrial and commercial areas, the exploitation of all types of primary energy resources, the provision of industrial services or services relating to its main area of business, particularly gas business, and those preliminary or supplementary to the corporate purpose and management of the corporate Group, comprising investments in other companies. The Company will carry out activities constituting its corporate purpose in Spain and abroad, either directly or through investment in other companies.

ENDESA, S.A.'s business purpose is mainly categorised in section E, division 40, subclass 40.10 of the Spanish Business Classification Index ("CNAE").

ENDESA, S.A.'s main business is the generation, transmission and distribution of electricity, and the sale of electricity and gas, through investees.

In order to organise these activities, in each geographic segment ENDESA, S.A. considers the existence of two separate lines of business (Generation and Distribution, each including their respective Supply business) that are managed independently but coordinated at country level in order to secure the competitive advantages offered by vertical integration, in due observance of regulations concerning separation of activities in jurisdictions requiring this, and any opportunities to optimise costs that may arise from greater overall size.

In view of the areas of business carried on by ENDESA, S.A. companies, transactions are not highly cyclical or seasonal.

## 1.2. Main Markets

ENDESA, S.A. generates, transmits, distributes and sells electricity chiefly in Spain, Portugal, Andorra, Argentina, Brazil, Chile, Colombia, Peru and Morocco. It is also a significant player in the deregulated natural gas market in Spain.

ENDESA, S.A.'s activity is structured by business lines to act quickly in the markets where it operates and to consider the needs of its customers in the territories and businesses in which it operates.

ENDESA, S.A.'s activities are organised on the basis of two major business lines, each in turn based on a geographic area:

- Spain and Portugal.
- Latin America.

## 1.3. Organisational Structure

ENDESA, S.A. and its subsidiaries (hereinafter "ENDESA") form part of the ENEL Group, of which ENEL Energy Europe, S.L.U. is the parent company in Spain. At 31 December 2013, it held 92.063% of ENDESA's shares.

At the date on which this Consolidated Management Report was drawn up, the composition of ENDESA's Executive Management Committee, which has among its functions the implementation of the strategies adopted by the Company, was as follows:

<b>Post</b>	<b>Member</b>
CEO	Andrea Brentan
General Manager - Legal and Corporate Affairs	Francisco de Borja Acha Besga
General Manager - Spain and Portugal	José Damián Bogas Galvez
General Manager - Procurement	Francesco Buresti
General Manager - Communications	Alberto Fernández Torres
General Manager - Economic and Financial	Paolo Bondi
General Manager - Strategy	Héctor López Vilaseco
General Manager - Innovation	Federico Fea
General Manager - Latin America	Ignacio Antoñanzas Alvear
General Manager - Human Resources and Organisation	José Luis Puche Castillejo
General Manager - Systems and Telecommunications	Rafael López Rueda

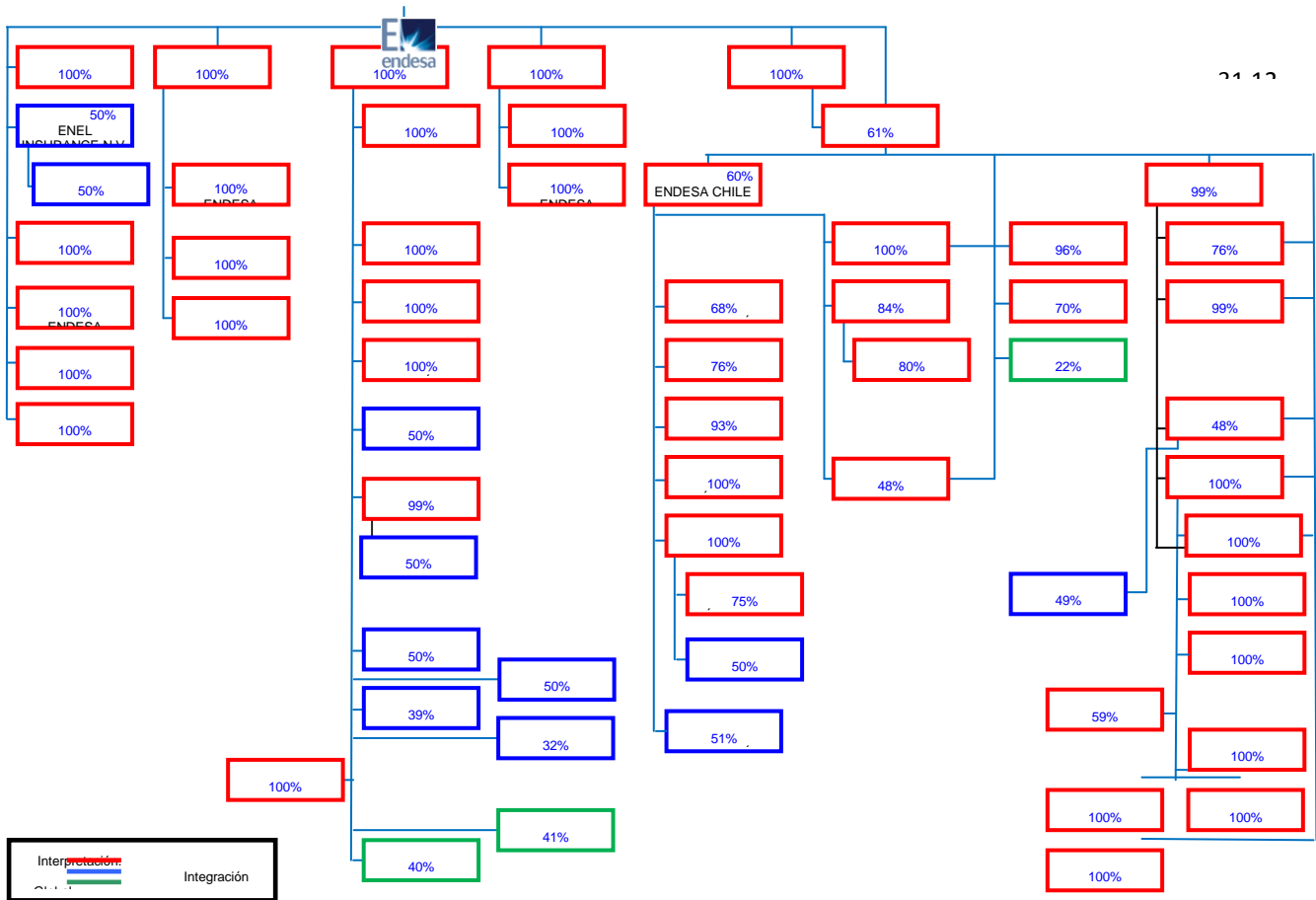
For the organisation of its business lines, ENDESA works primarily through the following companies: ENDESA Generación, S.A.U., ENDESA Red, S.A.U., ENDESA Energía, S.A.U. and ENDESA Latinoamérica, S.A.U.:

- ENDESA Generación, S.A.U.: This contains ENDESA's generation and mining assets - among other interests, it holds 100% of shares in Gas y Electricidad Generación, S.A.U., Unión Eléctrica de Canarias Generación, S.A.U., and a 40% stake in ENEL Green Power España, S.L., controlled by ENEL Green Power, S.p.A., which represents the ENEL Group's renewable energy business in Spain and Portugal.
- ENDESA Red, S.A.U.: This company is composed of ENDESA's territorial distribution companies in Spain. Among other interests, it holds 100% of the equity of ENDESA

Distribución Eléctrica, S.L.U., which carries on regulated electricity transmission and distribution business. ENDESA Red, S.A.U. also controls ENDESA Ingeniería, S.L.U.

- ENDESA Energía, S.A.U.: This company supplies electricity and gas on the deregulated market. Its main business is the supply of added-value services and energy to customers wishing to exercise their right to choose their supplier and take up the service on the deregulated market. ENDESA Energía, S.A.U. also holds 100% of the equity of ENDESA Energía XXI, S.L.U., a company operating the for Small Consumer Voluntary Price ("PVPC"), and of ENDESA Operaciones y Servicios Comerciales, S.L.U., to provide commercial services in relation to supply of electricity and gas. ENDESA Energía, S.A.U. also supplies the deregulated markets of a number of European countries.
- ENDESA Latinoamérica, S.A.U.: This company administers ENDESA's presence on the Latin American market through its holding in Enersis, S.A., a company based in Chile with controlling interests in electricity generation and distribution companies in five Latin American countries. Its main direct and indirect investees are: Empresa Nacional de Electricidad, S.A. (generation business in Chile with holdings in other generation companies), Chilectra, S.A. (distribution business in Chile with holdings in other electricity distribution companies in Latin America), Empresa Distribuidora Sur, S.A. (distribution business in Argentina), ENDESA Costanera e Hidroeléctrica el Chocón, S.A. and Central Dock Sud, S.A. (generation business in Argentina), Compañía de Interconexión Energética, S.A. (Argentina-Brazil electricity interconnection), Central Geradora Termeléctrica Fortaleza, S.A. and Centrais Eléctricas Cachoeira Dourada, S.A. (generation business in Brazil), Ampla Energia e Serviços, S.A. and Companhia Energética do Ceará, S.A. (distribution business in Brazil), Emgesa, S.A. E.S.P. (generation business in Colombia), Codensa, S.A. E.S.P. (distribution business in Colombia), Edegel, S.A.A. and Empresa Eléctrica de Piura, S.A. (generation business in Peru) and Empresa de Distribución Eléctrica de Lima Norte, S.A.A. (distribution business in Peru).

There follows a corporate map of ENDESA showing the situation of its main investees at 31 December 2013:



Appendix I to the Consolidated Financial Statements lists ENDESA's subsidiaries and jointly-controlled entities. Appendix II to the Consolidated Financial Statements lists ENDESA's associates.

The Annual Corporate Governance Report is attached to this Consolidated Management Report as Appendix I - it describes the organisation of the Board of Directors, and the bodies to which the Board delegates its decisions.

## 2. Business Trends and Results in 2013

### 2.1. Consolidated Results

#### ENDESA reported net income of Euros 1,879 million in 2013

ENDESA reported net income of Euros 1,879 million in 2013, 7.6% less than the previous year, due to a fall of Euros 234 million in Spain and Portugal business due to the impact of the application from 1 January 2013 of the tax measures for energy sustainability established in Law 15/2012, of 27 December, and of the emergency measures established in Royal Decree Law 2/2013 of 1 February and Royal Decree Law 9/2013 of 12 July, with a gross impact of Euros 941 million, in addition to Euros 396 million as the annual recurring impact on ENDESA of the regulatory measures introduced in 2012. The new measures applied in 2013 had an adverse effect on net income, in the amount of Euros 659 million.

This gross impact of Euros 1,337 million is approximately Euros 400 million less than the estimated annual recurring impact of these measures as the result of lower taxes on output in 2013 given the lower power generation during the period, lower prices in the course of the year on the wholesale electricity market that reduced the basis for calculation of tax, and the applicability of certain regulatory measures approved only during the latter half of 2013.

The poor performance of net income from business in Spain and Portugal was partially offset by the increase of Euros 79 million in net income from business in Latin America. This was largely due to the effects of Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Office, which recognised revenues to Empresa Distribuidora Sur, S.A. for a total amount, including interests, of Euros 333 million to compensate for cost fluctuations that had not been passed on to end users between 2007 and February 2013 in application to the adjustment of the Cost Monitoring Mechanism ("MMC"), which impacted net income in the amount of Euros 94 million.

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

<b>ENDESA net income, 2013</b>			
	<b>Millions of Euros</b>	<b>% change 2012</b>	<b>% of total net income</b>
Spain and Portugal	1,176	(16.6)	62.6
Latin America	703	12.7	37.4
<b>TOTAL</b>	<b>1,879</b>	<b>(7.6)</b>	<b>100.0</b>

#### Electricity generation and sales

ENDESA's electricity generation totalled 132,427 GWh in 2013, down by 6.4% on the same period in 2012. Electricity sales stood at 157,634 GWh, down by 3.0%.

<b>Electricity output and sales, 2013</b>				
	<b>Output</b>		<b>Sales</b>	
	<b>GWh</b>	<b>% change 2012</b>	<b>GWh</b>	<b>% change 2012</b>
Spain and Portugal	70,542	(9.9)	96,122	(6.5)
Latin America	61,885	(2.0)	61,512	3.0
<b>TOTAL</b>	<b>132,427</b>	<b>(6.4)</b>	<b>157,634</b>	<b>(3.0)</b>



## EBITDA: Euros 6,720 million

EBITDA and EBIT fell in 2013 by 4.1% and 2.6% respectively to Euros 6,720 million and Euros 4,302 million.

The 4.1% reduction in EBITDA in 2013 is partly due to the 13.7% decline in business in Spain and Portugal and also to a 7.3% increase in Latin American business. These variations were mainly due to the following:

- EBITDA from business in Spain and Portugal was reduced by only Euros 519 million despite the negative impact of the fiscal measures approved by Law 15/2012 of 27 December, which prompted a Euros 664 million increase in costs, and the measures introduced by Royal Decree Law 9/2013 of 12 July and Royal Decree Law 2/2013 of 1 February, which brought revenues in the business unit down by Euros 269 million, thanks to better market conditions and rainfall in 2013, and operating improvements achieved in this area that reduced fixed costs by Euros 142 million.
- The Euros 234 million increase in the Latin American business unit is due to income received following application of Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Office which recognised payment of Euros 293 million to be applied under the Cost Monitoring Mechanism ("MMC") adjustment for cost fluctuations that had not been passed on to end users between 2007 and February 2013. This positive impact in Argentina was partially offset by the impact of stranded costs affecting distributors in Brazil that were not fully offset by the extraordinary measures adopted by the Brazilian government for immediate compensation. This amounted to Euros 63 million, and will be offset in subsequent tariff reviews in accordance with Brazilian regulations. Stripping out these two effects, sound operational performances by Latin American investees have absorbed the negative impact on EBITDA of Euros 349 million by devaluation of Latin American currencies against the euro in 2013.

Despite a 4.1% reduction in EBITDA, EBIT fell by only 2.6% thanks to a reduction of "Depreciation and amortisation and impairment losses" as the result of an extraordinary write-down in 2012 for certain assets, chiefly the Santa María de Garoña nuclear plant, Spanish mining assets, generation assets in Ireland and the Tarapacá plant in Chile, for a total amount of Euros 213 million.

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

	Revenues		EBITDA		EBIT	
	Millions of Euros	% change 2012	Millions of Euros	% change 2012	Millions of Euros	% change 2012
Spain and Portugal	21,512	(7.1)	3,277	(13.7)	1,651	(17.4)
Latin America	9,691	(10.2)	3,443	7.3	2,651	9.5
<b>TOTAL</b>	<b>31,203</b>	<b>(8.0)</b>	<b>6,720</b>	<b>(4.1)</b>	<b>4,302</b>	<b>(2.6)</b>

## Net financial loss: Euros 350 million

The net financial loss in 2013 was Euros 350 million, an improvement of Euros 291 million with respect to 2012. Net finance expense totalled Euros 344 million, down by Euros 255 million against 2012.

Net exchange losses were Euros 6 million, compared to losses of Euros 42 million in 2012.

The major positive trend in financial results was mainly due to a considerable reduction of debt during this period.

### Gross investment: Euros 2,458 million

Gross investment by ENDESA totalled Euros 2,458 million in 2013. Of this amount, Euros 2,253 million were accounted for by related to capex, investment in intangible assets and investment property, and the remaining Euros 205 million to financial investments, as follows:

Investment	Millions of Euros			% change 2012
	Capex, intangibles and investment property <sup>(1)</sup>	Financial investment	TOTAL	
Spain and Portugal	876	57	933	(34.0)
Latin America	1,377	148	1,525	16.1
<b>TOTAL <sup>(2)</sup></b>	<b>2,253</b>	<b>205</b>	<b>2,458</b>	<b>(9.9)</b>

(1) Excluding CO<sub>2</sub> emission rights, CERs and ERUs.

(2) In 2012 this did not include investment in non-current assets held for sale and in discontinued operations amounting to Euros 73 million, or acquisition of the gas customer portfolio in the region of Madrid for Euros 34 million.

Information concerning ENDESA's PP&E and intangible asset purchase commitments at 31 December 2013 is set out in Notes 5 and 7 to the Consolidated Financial Statements.

### Financial position

ENDESA had net financial debt of Euros 4,286 million at 31 December 2013, a reduction of Euros 4,492 million compared to 31 December 2012.

This significant reduction of debt was largely due to two factors: a cash contribution of Euros 1,796 million by non-controlling shareholders in the share capital increase arranged by Enersis, S.A. in March 2013, and the proceeds in 2013 accumulated from previous years tariff deficit rights in the total amount of Euros 3,751 million, of which Euros 3,541 million are coming from securitizations conducted by the electricity system deficit securitisation fund ("FADE"), which exceeded ENDESA's financing in this area over the period of Euros 2,605 million.

It should also be noted that, at 31 December 2013, Euros 1,029 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 debt, it must be borne in mind that at 31 December 2013 ENDESA had the recognised right to collect Euros 3,146 million in connection with several Spanish regulatory receivables: Euros 1,985 euros for financing the revenue shortfall from regulated activities and Euros 1,161 million in compensation for stranded costs in non-mainland generation business.

Stripping out the items described in the foregoing paragraphs, ENDESA's net debt at 31 December 2013 amounted to Euros 111 million, Euros 3,521 million less than at 31 December 2012.

Net financial debt by business lines is as follows:

<b>Breakdown of ENDESA'S net financial debt by business line (1)</b>				
	<b>Millions of Euros</b>			<b>% change</b>
	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>Difference</b>	
Business in Spain and Portugal	1,440	5,059	(3,619)	(71.5)
Business in Latin America:	2,846	3,719	(873)	(23.5)
Enersis	2,649	4,144	(1,495)	(36.1)
Other	197	(425)	622	146.4
<b>TOTAL</b>	<b>4,286</b>	<b>8,778</b>	<b>(4,492)</b>	<b>(51.2)</b>
<b>Leverage (%) (2)</b>	<b>16.0</b>	<b>33.3</b>	<b>NA</b>	<b>NA</b>

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

(2) Net financial liabilities / Equity.

The average cost of ENDESA's debt was 5.7% in 2013, similar to 2012, despite ENDESA's and its direct subsidiaries (and also Enersis) lower average cost of debt, as a result of the increase of the relative proportion of Enersis's net financial debt, which incurred higher costs. Enersis average cost of debt was 8.1% (8.6% in 2012). Excluding Enersis's debt, the average cost of ENDESA's debt was 3.1%, against 3.5% in 2012.

The table below shows the structure of the Group's net financial debt at 31 December 2013:

<b>Structure of ENDESA'S net financial debt at 31 December 2013</b>						
<b>(Millions of Euros)</b>						
	<b>ENDESA and direct subsidiaries</b>		<b>Enersis</b>		<b>Total ENDESA</b>	
	<b>Millions of Euros</b>	<b>% of total</b>	<b>Millions of Euros</b>	<b>% of total</b>	<b>Millions of Euros</b>	<b>% of total</b>
Euro	1,620	99	-	-	1,620	38
US dollar	-	-	1,098	42	1,098	26
Chilean Peso / Unidades de Fomento	-	-	(279)	(11)	(279)	(7)
Brazilian real	-	-	405	15	405	9
Colombian peso	-	-	1,198	45	1,198	28
Peruvian sol	-	-	196	8	196	5
Argentinian peso	-	-	31	1	31	1
Other currencies	17	1	-	-	17	-
<b>TOTAL</b>	<b>1,637</b>	<b>100</b>	<b>2,649</b>	<b>100</b>	<b>4,286</b>	<b>100</b>
Fixed rate	795	49	1,945	73	2,740	64
Variable rate	842	51	704	27	1,546	36
<b>TOTAL</b>	<b>1,637</b>	<b>100</b>	<b>2,649</b>	<b>100</b>	<b>4,286</b>	<b>100</b>
Average life (years)	6.1		5.7		5.9	

ENDESA held liquidity of Euros 8,719 million in Spain at 31 December 2013, sufficient to meet the Group's total debt repayments over the next 37 months. This amount includes Euros 2,036 million of cash position at that date, of which Euros 1,000 million had been placed with ENEL Energy Europe, S.L.U. and were cancelled on 2 January 2014 through payment of the interim dividend; and Euros 6,683 million in undrawn and unconditionally available on lines of credit, of which Euros 3,500 million correspond to a credit line with ENEL Finance International, N.V., of which there is no amount drawn at 31 December 2013.

Meanwhile, at the same date Enersis showed a cash position of Euros 2,299 million, and Euros 549 million in undrawn, unconditional credit lines, covering debt maturities for the next 42 months. Euros 1,029 million must be added to these sums as the amount placed in financial instruments with maturities of more than three months.

## **Financial leverage**

ENDESA's consolidated equity stood at Euros 26,769 million at 31 December 2013, Euros 400 million more than at 31 December 2012. Equity was reduced by Euros 1,588 million following the interim dividend agreed at ENDESA's Board of Directors meeting on 17 December 2013, and increased in the amount of Euros 1,724 million by the capital contribution by non-controlling shareholders in the Enersis, S.A. share capital increase.

Euros 20,521 million of this equity correspond to ENDESA, S.A. shareholders, and Euros 6,248 million to non-controlling shareholders.

Changes to ENDESA's equity and net financial debt produced a leverage ratio (net financial debt/equity) of 16.0% at 31 December 2013, compared to 33.3% at 31 December 2012.

## **Gains on asset divestments**

On 28 June 2013, ENDESA proceeded to sell its 12% stake in Medgaz, S.A. to Compañía Española de Petróleos, S.A. (CEPSA) and Sonatrach S.P.A, which in the exercise of its right of pre-emption acquired, respectively, 47% and 53% of the mentioned stake. The sale price was Euros 84 million and includes the transfer to the buyers of the loan held by ENDESA with Medgaz, S.A., amounting to Euros 8 million. The purchasers also released ENDESA from its guarantees with the European Investment Bank resulting from a loan from the latter to Medgaz, S.A. for which Endesa had posted collateral totalling Euros 94 million. The sale generated gross capital gains of Euros 64 million in ENDESA's consolidated income statement for the year ended 31 December 2013.

On 9 December 2013, ENDESA Gas, S.A.U. sold its 20% stake in the equity of ENDESA Gas T&D, S.L. to Augusta Global Coöperative U.A and Zaragoza International Coöperative U.A., infrastructure funds managed by Goldman Sachs. The divestment has involved the transfer to the purchaser of participating loans granted by ENDESA Gas, S.A.U. to ENDESA Gas T&D, S.L. for a total amount of Euros 90 million. The sale generated gross capital gains of Euros 12 million in ENDESA's consolidated income statement for the year ended 31 December 2013.

## **2.2. Results by Business Lines**

### **2.2.1. Business in Spain and Portugal**

#### **Net income – Spain and Portugal: Euros 1,176 million**

Net income from ENDESA's business in Spain and Portugal was Euros 1,176 million, Euros 234 million lower year-on-year, contributing 62.6% to ENDESA's total net income.

EBITDA stood at Euros 3,277 million, down by 13.7% year-on-year, while EBIT totalled Euros 1,651 million, down by 17.4%.

The following factors must be taken into account when considering EBITDA evolution for the period:

- The energy sustainability fiscal measures approved in Law 15/2012 of 27 December directly affecting the electricity sector came into force in 2013, and measures approved in Royal Decree Law 2/2013 of 1 February and Royal Decree Law 9/2013 of 12 July had an adverse impact on EBITDA in 2013 in the amount of Euros 933 million. This is in addition to the annual recurring impact on ENDESA of Euros 396 million arising from the regulatory measures introduced in 2012.

This impact of Euros 1,329 million is approximately Euros 400 million less than the estimated annual recurring impact of these measures as the result of lower taxes on output in 2013 given the lower power generation during the period, lower prices in the course of the year on the wholesale electricity market that reduced the basis for calculation of tax, and the applicability of certain regulatory measures approved only during the latter half of 2013.

- The efforts made to achieve operating improvements to help offset at least some of the negative impact of the regulatory measures triggered a Euros 142 million reduction in the fixed costs of this business unit in 2013 compared to the previous year.
- A better power generation mix due to exceptional rainfall, 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 44.4/MWh in 2013, 9.8% lower than in 2012, brought about by the exceptional rainfall already mentioned, reduced the average cost of electricity purchases.

Mainland electricity demand shrank by 2.2% in 2013.

During this period, ENDESA obtained a market share of 36.1% in ordinary mainland generation, a 43.0% share in distribution and a 37.5% share in sales to customers in the deregulated market.

## Regulatory developments

Information on Spain's regulatory framework is set out in Note 4 to the consolidated financial statements.

There follows an update of the Spanish regulatory framework that either were approved in 2013 or had a major effect on the consolidated financial statements for that year.

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

On 28 December 2012, the Official State Journal ("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. This 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 Budget 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 the 2013 General State Budget**

On 28 December 2012 the Official State Journal published the text of the Law on the 2013 General State Budget which, exceptionally for 2013, does not include items to finance 2012 stranded costs for generation in non-mainland electricity systems. These will now be financed by the settlement system for regulated businesses and, therefore, by access charges. This legislation also details the items earmarked to cover the electricity system costs as indicated in the aforementioned 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 Journal 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 2012 tariff deficit that can be transferred to the electricity system deficit securitisation fund ("FADE") up to the amount resulting from the definitive settlement 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 will 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 (CPI) are updated. It stipulates that this remuneration will be adjusted in accordance with the Consumer Price Index (CPI) at constant-tax rate, excluding unprocessed foodstuffs and energy products.

This legislation also modifies the energy sales options available to special regime facilities, such that all facilities will 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.

## **Law 17/2013 of 29 October on security of supply and increased competition in non-mainland systems**

On 30 October 2013 the Official State Journal published this Law whose aim is to provide a better guarantee of supply and increase competition in non-mainland electricity systems. Its main aspects are as follows:

- For reasons of safety or technical and economic efficiency, additional remuneration to the mainland spot market price may be given for new generation facilities in 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 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 holding administrative authorisation or have been registered in the remuneration pre-assignment register for the CHP/renewable regime. Another exception is made for investment in upgrading and improving efficiency at plants already in operation which do not entail an increase in capacity or where there are no other agents interested in developing facilities.
- The System Operator will be the owner of pumped-storage hydro plants intended to guarantee security of supply, or the integration of renewable sources. In all other cases an award procedure will be carried out. Notwithstanding the above, any company holding a hydroelectric operating concession granted before 1 March 2013, or which had been granted administrative authorisation but had not been granted authorisation to bring the plant on stream, will retain ownership but will be liable for a guarantee amounting to 10% of the total investment and adhere to an execution timetable.
- Regasification plants will be exclusively owned by the Technical System Operator, and the facilities concerned must be transferred within 6 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.
- Remuneration 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 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.

## **Law 3/2013 of 4 June on creation of 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 Journal on 5 June 2013, grouping various existing regulatory bodies together in a single entity, 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 in a single institution, in order to streamline structures and maximise economies of scale.

This Commission will be a public entity, with legal status and completely independent of the government, public administrations and market players. It will be attached to the Ministry of the Economy and Competition, without prejudice to its relationship with other Ministries due to the nature of its functions.

The Council will comprise 10 members with a non-extendable mandate of six years, including a Chairman and Vice-Chairman and members appointed by the government following a proposal by the Minister of Economy and Competitiveness. The candidates nominated must appear before the Spanish Parliament's Economy and Competitiveness Committee before their appointment. The Parliament will also have veto rights, on an absolute majority of the corresponding Commission.

The Commission will have two sections, one to address competition issues, led by the Chairman, and the other to address regulatory supervision issues, led by the Vice-Chairman. Each section will have five members, who will be rotated.

As mentioned previously, the new Spanish Markets and Competition Commission ("CNMC") will take up the functions hitherto carried out 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.

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

On 12 July 2013 the Spanish Government approved a draft of reform measures for the energy sector to eliminate once and for all 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 competence vis-à-vis consumers.

These measures were contained in Royal Decree Law 9/2013 of 12 July adopting urgent measures to guarantee the financial stability of the electricity system, Law 24/2013 of 26 December on the electricity sector, and a set of detailed provisions.



## **Royal Decree Law 9/2013 of 12 July adopting urgent measures to guarantee the financial stability of the electricity system**

The main aspects of this Royal Decree Law are as follows:

- The measure establishes a new remuneration system for electricity generation facilities which use co-generation, renewable energy sources and waste, which will receive 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 -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 tariff deficit, quantified at Euros 4,109 million for transfer purposes.
- The system of investment incentives included in the capacity payments mechanism has been modified, reducing the amount from Euros 26,000 to Euros 10,000/MW, but the period during which these may be received has been extended from double the time remaining to the end of the 10-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 contemplated. The Spanish Markets and Competition Commission ("CNMC") 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 RDL 9/2013 comes into effect, the Ministry of Industry, Energy and Tourism will announce a resolution to review 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 contemplated 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 non-mainland electricity systems compensation during the previous year. With regard to 2013, Law 24/2013 of 26 December on the electricity sector has repealed this funding from the State Budget.

## **Law 24/2013 of 26 December on the electricity sector**

This derogated the previous Law 54/1997 of 27 November on the electricity sector, and established a new general operating framework for the sector and the system of activities and agents. The major changes with respect to the previous system are as follows:

- The new law introduces the basic principle of the economic and financial sustainability of the electricity system in such a way that revenues are sufficient to cover all system costs. System costs will be financed by access charges for transmission and distribution networks (to cover remuneration of both activities), charges established for payment of other costs, items from the General State Budget and any other revenue or financial mechanism established. Also:
  - Any increase in costs or reduction in revenues must be accompanied by an equivalent reduction of other costs or a revenue increase. Simultaneously, no access fees decrease is possible as long as there are cost items used to pay debt from previous years.
  - From 2014 onwards, temporary imbalances that may arise will be limited to a maximum annual amount of 2% of the estimated system revenue (or 5% in cumulative terms). Any transitory imbalance will be financed by all players taking part of the settlement system, in proportion to their remuneration. If these limits are exceeded, access fees will be reviewed by an equivalent amount. Within these limits, any imbalance will entitle the financing parties to recover those funds in the five following years, at market conditions interest rate.
  - With regard to the year 2013, a maximum deficit of Euros 3,600 million is recognised, without prejudice to any timing mismatches that may arise. This deficit will generate a recovery entitlement over the fifteen years following, at market conditions interest rate. These rights may be transferred, in accordance with the procedure established by regulation.
  - The General State Budget for each year will finance 50% of compensation for non-mainland electricity systems for that year.
- Concerning remuneration for activities, the law stipulates that remuneration for transmission, distribution and production in non-mainland systems and production from renewable energy sources, high-efficiency cogeneration and waste will take into account the costs of an efficient, well-managed company. Remuneration parameters will be established in due consideration of the cyclical situation of the economy, demand for electricity and proper profitability of these activities over six-year regulatory periods. The law establishes the remuneration of assets for the first regulatory period (which ends on 31 December 2019) as the average yield on 10Y treasury bills on the secondary market for the three months prior to entry into force of Royal Decree Law 9/2013 of 12 July, plus 200 basis points for transmission, distribution and production in non-mainland systems, and plus 300 basis points for production from renewable energy sources, high-efficiency cogeneration and waste.
- The differentiation between ordinary regime and special regime power generation has also been removed, without prejudice to specific considerations for certain technologies.
- The Last Resort Tariff ("LRT"), which applies to most domestic consumers, will be renamed as Small Consumer Voluntary Price, and the Last Resort Tariff will be

maintained for vulnerable consumers and those that do not meet the requirements to be eligible for the Small Consumer Voluntary Price tariff and temporarily do not have a current contract with a free-market supplier.

## **Other regulatory developments**

Additionally, the Government launched in July 2013 the processing of other regulatory developments that relate to transmission, distribution and generation in non-mainland systems, renewable energies, self-consumption, capacity payments and aspects of sales and supply.

Royal Decree 1048/2013 of 27 December was published on 30 December, establishing the methodology for calculating the remuneration for distribution activity. The regulation aims to provide a stable predictable methodology to guarantee, under homogenous criteria nationwide, appropriate return at the lowest possible cost to the system. The new aspects are as follows:

- Investment in non-amortised assets in service will be remunerated in due consideration of the net value of the assets and a financial remuneration rate based on 10Y treasury bills plus 200 basis points, in addition to operation and maintenance of the assets.
- There will be remuneration for the costs required to carry out distribution activities, such as meter reading, supply contract process, billing access charges and management of non-payments, customer phone service, charges for occupancy of public areas and structural costs.
- There are incentives and penalties in connection with improvements to supply quality, reducing losses on distribution networks, and a new fraud reduction incentive.
- The extra costs of specific regulations introduced by regional or local authorities will not be borne by the electricity tariff.
- Accrual and payment of remuneration for facilities commissioned in year  $n$  will start from 1 January of the year  $n+2$ , and a financial cost will be recognised.
- Mechanisms have been established to control investment. For the whole sector, the maximum volume of authorised investment has been limited to a total of 0.13% of Gross Domestic Product (GDP). Distributors will submit to the Ministry of Industry, Energy and Tourism their yearly and multiannual plans for approval, and will also require a favourable report by the regional authorities concerned. Limits are also established for deviations from the standard, just recognizing part of the extra costs, which must be duly justified and audited. Volumes of investment will also be reduced in the event of non-compliance with the plans established, and the possibility to bring forward the construction of a facility is established, provided it is already envisaged and its cost is not borne by the system.

Royal Decree 1047/2013 of 27 December was published on the same date, establishing the methodology for calculating remuneration for power transmission activity.

Other regulatory developments include the possibility of temporary closure of facilities (hibernation) on strict criteria to guarantee the security of supply, measures to reduce electricity output costs in non-mainland systems, and incentives for the development of renewable energies in the Canary Islands and Balearic Islands. In relation to non-mainland

systems, the proposed Royal Decree establishes an scheme similar to the current system, albeit with amendments to certain aspects of costs in order to improve system efficiency; the proposed methodology would apply from 2014, with a transitional period until that date; it also develops issues already contained in Law 17/2013 of 29 October on security of supply and increased competition in these systems.

### **2013 electricity tariff**

After the energy auction, Resolution dated 27 December 2012 from the Department of Energy Policy and Mines revised the Last Resort Tariff ("LRT") for the first quarter of 2013, increasing it by 3%.

The Ministerial Order establishing access charges from 1 January 2013, IET/221/2013 of 14 February, was published on 16 February 2013. Access tariffs remained unchanged. Among other aspects, the Ministerial Order includes the possibility of transferring the 2012 tariff deficit to the FADE fund, based on the result of Settlement 14/2012, or including 2011 and 2012 non-mainland compensation not funded by the General State Budget in the settlements of year 2012.

After the energy auction, Resolution dated 25 March 2013 from the Department of Energy Policy and Mines revised the LRT for the second quarter of 2013, reducing it by 6.6%.

Similarly, Resolution dated 26 June 2013 from the Department of Energy Policy and Mines revised the LRT for the third quarter of 2013, increasing it by 1.3%.

Pursuant to the provisions of Royal Decree Law 9/2013, Ministerial Order IET/1491/2013 of 1 August reviewing access charges was published on 3 August 2013, increasing them by an average of 6.8%. The LRT was also reviewed and was increased by 3.1%.

Finally, after the energy auction, Resolution dated 24 September 2013 from the Department of Energy Policy and Mines revised the LRT for the fourth quarter of 2013, increasing it by 3%.

On 14 January 2013 the Official State Journal 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 real meter readings.

At 31 December 2013, insufficiency of access tariffs accrued in 2013 to meet the costs of the electricity system generated a revenue shortfall of regulated activities, of which 44.16% had to be financed by ENDESA in the amount of Euros 1,979 million. A Euros 905 million non-mainland shortfall was also recorded for 2013. Most of this amount corresponds to the compensation that, according to Royal Decree Law 9/2013 of 12 July, was to be financed by the General State Budget, but will finally be financed, pursuant to Law 24/2013 of 26 December, by 2013 access tariffs, as stipulated in Ministerial Order IET/107/2014 of 31 January addressing the review of access tariffs for 2014.

### **2014 electricity tariff**

The twenty-fifth "CESUR" auction (Last Resort Energy Supply Contracts) to determine the cost of energy to be integrated in calculation of Small Consumer Voluntary Price was held on 19

December 2013. It replaced the Last Resort Tariff. After the auction, on 20 December the National Markets and Competition Commission issued a ruling declaring that the results of the auction could not be validated in view of atypical circumstances and because the auction was held in an energy context that could not be extrapolated to the first quarter of 2014. As a result, in accordance with regulations the auction was cancelled for all effects.

Thus, a ruling on 20 December 2013 by the Secretary of State for Energy established that the price arising from the twenty-fifth CESUR auction could not be considered for the determination of the estimated cost of wholesale contracts, as the auction had been cancelled for all effects.

On 28 December 2013 the Official State Journal published Royal Decree Law 17/2013 of 27 December determining the price of electricity in contracts subject to Small Consumer Voluntary Price tariff in the first quarter of 2014. The Royal Decree Law set the base and peak prices for calculating the energy costs to be included in Small Consumer Voluntary Price, considering the base and peak references of the public prices of the Iberian Energy Derivatives Exchange (OMIP) for Q1-14 in the last six months of trading available at the date of approval of Royal Decree Law 17/2013 of 27 December. This changed the Small Consumer Voluntary Price as of 1 January 2014, by 1.4% while access tariffs remained unchanged; and this was approved in a Ruling of 30 December 2013. Royal Decree Law 17/2013 of 27 December also establishes that there would be acknowledgement for major suppliers of the discrepancies between the prices stipulated in the law and market price, and this would be incorporated in Small Consumer Voluntary Price in the following quarter.

Ministerial Order IET/107/2014 was published on 1 February to review 2014 access tariffs - these have now been increased by an average of 2% from 1 February. The Order contemplates an annual payment to recover the deficit envisaged for 2013, and the inclusion in 2013 access tariffs of non-mainland compensation for that year not financed by the General State Budget, as per Law 24/2013 of 26 December on the electricity sector. Small Consumer Voluntary Price was also revised, and this brought an average increase of around 2% (with respect to prices prevailing at 31 December 2013) following Royal Decree Law 17/2013 of 29 October and Ministerial Order IET/107/2014 of 31 January.

### **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 Resolution dated 28 December 2012 from the Department of Energy Policy and Mines approved reductions in LRT.1 and LRT.2 of 2.5% and 3.7% respectively.

### **Natural gas tariff for 2014**

Ministerial Order IET/2446/2013 of 27 December reviewed access charges from 1 January, introducing a general increase of around 2%, with no changes to Last Resort Tariffs, approved by Resolution dated 26 December 2012 from the Department of Energy Policy and Mines.

### **Revenues: Euros 21,512 million**

In 2013 Endesa reported revenues of Euros 21,512 million from Business in Spain and Portugal, down by 7.1% against the previous year.

Of this amount, revenues from sales accounted for Euros 20,494 million (-7.0%), while other operating income accounted for Euros 1,018 million euros (-8.9%).

## Sales

Sales in the Spain and Portugal business unit in 2013 were as follows:

	Millions of Euros			% change
	2013	2012	Difference	
<b>Sales in the Spain and Portugal business</b>				
Electricity sales	15,244	17,019	(1,775)	(10.4)
Sales to the deregulated market	7,761	7,881	(120)	(1.5)
Sales from Last Resort Supplier	3,993	4,841	(848)	(17.5)
Wholesale market sales	965	1,283	(318)	(24.8)
Supplies to customers in deregulated markets outside Spain	895	822	73	8.9
Non-mainland compensation	1,537	1,954	(417)	(21.3)
Power trading	13	76	(63)	(82.9)
Other sales	80	162	(82)	(50.6)
Regulated revenues from electricity distribution	2,001	2,025	(24)	(1.2)
Gas supply activity	2,042	1,929	113	5.9
Other sales and services rendered	1,207	1,055	152	14.4
<b>TOTAL</b>	<b>20,494</b>	<b>22,028</b>	<b>(1,534)</b>	<b>(7.0)</b>

## Electricity sales

ENDESA's electricity output in Spain and Portugal stood at 70,542 GWh, a fall of 9.9% against 2012. Of this amount, 68,514 GWh was accounted for by Spain (-9.9%), 1,176 GWh by Portugal (-13.5%) and 852 GWh by the rest of the segment (-8.4%).

Mainland ordinary regime output totalled 56,179 GWh in 2013, 10.3% less than in 2012. This was due to the major decrease in output at both coal-fired plants (-26.7%) and combined-cycle plants (-62.2%), and was only partially offset by an increase at hydro plants (+77.8%). Nuclear output also declined 3.7% in the period due to the decommissioning of the Santa María de Garoña plant.

Nuclear and hydro energy accounted for 63.2% of ENDESA's mainland generation mix under the ordinary regime (51.6% in 2012), compared with 55.7% for the rest of the sector (44.1% in 2012).

ENDESA's output from non-mainland facilities was 12,335 GWh, a decrease of 7.9% compared to 2012.

## Supply to deregulated customers

ENDESA had 3,802,064 customers (+33.9%) in the deregulated market at the end of 2013: 3,635,862 (+33.9%) in the Spanish mainland market and 166,202 (+35.1%) in European deregulated markets other than Spain.

ENDESA sold a total of 74,209 GWh to these customers in 2013, a decrease of 3.8%.

Sales in the Spanish deregulated market totalled Euros 7,761 million, down by 1.5% against 2012.

Revenues from sales to deregulated European markets other than Spain rose by 8.9% year-on-year to Euros 895 million.

### **Last resort supplier sales**

ENDESA sold 21,913 GWh through its last resort supplier in 2013, 14.5% less than in 2012 as a result of the transfer of last resort tariff customers to the deregulated market.

These sales generated revenue of Euros 3,993 million, down by 17.5% against 2012.

### **Electricity distribution activity**

ENDESA distributed 112,031 GWh in the Spanish market in 2013, 2.9% less than the previous year.

Regulated revenues from distribution activities in 2013 amounted to Euros 2,001 million, down by 1.2% against 2012. In order to analyse these changes the following factors should be taken into account:

- Revenues in 2012 included the reduction in remuneration for distribution activity established in Royal Decree Law 13/2012 of 30 March, with effect as of 1 January 2012. This triggered a 9.6% reduction in regulated revenue from distribution activity in 2012 compared to 2011.
- In the first half of 2013, revenue from distribution rose by 6.6% against the first half of 2012.
- Revenue for the second half of 2013 decreased by 14.2% due to the reduction in remuneration for distribution activity established in Royal Decree Law 9/2013 of 12 July, with effect as of 14 July 2013.

Therefore, as a result of the application of Royal Decree Law 13/2012 of 30 March and Royal Decree Law 9/2013 of 12 July, regulated revenues from distribution activities in the second half of 2013, which included the impact of both Royal Decree Laws, were 17.5% lower than in the same period in 2011.

### **Gas supply**

ENDESA sold 57,334 GWh of natural gas to customers in the deregulated market in Spain in 2013, which represents a 1.6% increase on the 2012 figure.

Revenues from gas sales in the deregulated market rose by 5.9% to Euros 2,042 million.

### **Other operating income**

"Other operating income" in 2013 fell by Euros 100 million with respect to the previous year.

"Other operating income" in 2012 included Euros 157 million due to the attribution as income the CO<sub>2</sub> emission rights allocated to ENDESA on the National Allocation Plan (NAP) for emissions in 2012. Law 13/2010 of 5 July removed the National Allocation Plans as of 2013, and thus no amounts were recorded in this regard in 2013.



## Operating expenses

The breakdown of operating expenses by business in Spain and Portugal in 2013 was as follows:

	Millions of Euros			% change
	2013	2012	Difference	
<b>Operating expenses – Spain and Portugal business</b>				
Procurements and services	15,951	16,933	(982)	(5.8)
Energy Power purchases	5,274	5,848	(574)	(9.8)
Fuel costs	2,817	3,052	(235)	(7.7)
Transmission costs	6,106	6,530	(424)	(6.5)
Other procurements and services	1,754	1,503	251	16.7
Personnel expenses	1,043	1,078	(35)	(3.2)
Other operating expenses	1,343	1,450	(107)	(7.4)
Depreciation and amortisation, and impairment losses	1,626	1,798	(172)	(9.6)
<b>TOTAL</b>	<b>19,963</b>	<b>21,259</b>	<b>(1,296)</b>	<b>(6.1)</b>

### Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 15,951 million in 2013, 5.8% less than in 2012.

This includes Euros 664 million related to the negative impact of certain measures introduced by Law 15/2012 of 27 December, which entered into force in 2013.

Despite this negative impact of Law 15/2012 of 27 December, as mentioned in the preceding paragraph, variable costs were lower mainly as a result of the 10.2% reduction in power purchases, which amounted to Euros 5,274 million due to the lower average purchase price, and to the 10.7% reduction in fuel costs of Euros 2,817 million thanks to lower thermal output during the period. The cost of CO<sub>2</sub> emission allowances used, included under "Other procurements and services", was Euros 137 million less than in 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 offset by a reduction of Euros 157 million in the revenues of year 2012 related to the CO<sub>2</sub> emission allowances granted for free according to the National Allocation Plan.

Finally, in 2013 this item showed lower costs on the chargeback of Euros 102 million booked between 2009 and 2011 concerning the social bonus financing, following a Supreme Court ruling dated 7 February 2012. Through this Supreme Court ruling, ENDESA and other ordinary regimen generation companies are exempted to finance the social bonus cost.

### Personnel and other fixed operating expenses

Fixed costs amounted to Euros 2,386 million in 2013, down by Euros 142 million (-5.6%) compared to 2012 as a result of the cost-savings policy deployed.

Personnel expenses amounted to Euros 1,043 million, a reduction of 3.2% despite the addition of workforce restructuring costs. In order to analyse this change, it should be taken into account the Euros 23 million variation in the costs of non-recurring personnel, which include Euros 57 million for indemnities and Euros 34 million of lower costs resulting from the update of the provision for workforce restructuring plans. Stripping out these costs, recurrent personnel costs decreased by 5.4% due to wage restraints coupled with an average reduction of 3.7% in this business unit.



Other operating expenses stood at Euros 1,343 million, down by Euros 107 million (-7.4%) as a result of the cost-reduction policy deployed.

### **Depreciation and amortisation, and impairment losses**

Depreciation and amortisation charges and impairment losses totalled Euros 1,626 million in 2013, Euros 172 million (-9.6%) less than in 2012.

In 2012 this heading included write-downs on the assets of the Santa María de Garoña nuclear power plant and of Empresa Carbonífera del Sur, S.A.U. in the amounts of Euros 60 and 66 million respectively, plus a Euros 67 million impairment provision for the Group's assets in Ireland.

### **Net financial loss: Euros 100 million**

The net financial loss reported for 2013 was Euros 100 million, Euros 161 million less than in 2012.

This was due to a Euros 128 million decline in net financial expenses and a Euros 33 million reduction in net exchange differences, which shifted from a cost of Euros 5 million in 2012 to earnings of Euros 28 million in 2013.

The trend in long-term interest rates in both 2013 and 2012 meant that provisions had to be adjusted to account for obligations from ongoing workforce restructuring plans in the amounts of Euros 11 million (positive) in 2013 and Euros 76 million (negative) in 2012.

Excluding this impact, net finance expense would have fallen by Euros 41 million (-22.8%), due to lower financing costs and debt reduction over the period.

## Gross investment: Euros 933 million

Gross investment in the Spain and Portugal business unit totalled Euros 933 million in 2013, as shown in the table below:

<b>Investment in the Spain and Portugal business unit</b>			
	<b>Millions of Euros</b>		<b>% change</b>
	<b>2013</b>	<b>2012</b>	
Generation	267	420	(36.4)
Distribution and transmission	509	840	(39.4)
Other	5	5	-
<b>TOTAL CAPEX</b>	<b>781</b>	<b>1,265</b>	<b>(38.3)</b>
Intangible assets <sup>(1)</sup>	95	102	(6.9)
Financial investments	57	46	23.9
<b>TOTAL <sup>(2)</sup></b>	<b>933</b>	<b>1,413</b>	<b>(34.0)</b>

(1) Excluding CO<sub>2</sub> mission rights, Certified Emissions Reductions (CERs) and Emission Reductions Unit (ERUs).

(2) In 2012 this did not include investment in non-current assets held for sale and in discontinued operations amounting to Euros 73 million, or acquisition of the gas customer portfolio in the region of Madrid for Euros 34 million.

Gross generation capex in the Spain and Portugal business unit in 2013 was chiefly related to maintenance investments. Gross investments in distribution related to network extensions and expenditure aimed at optimising the network for greater efficiency and quality of service. It also included investment for the widespread installation of smart meters and their operating systems.

## 2.2.2. Business in Latin America

### Net income in Latin America: Euros 703 million

Net income in ENDESA's Latin American business in 2013 was Euros 703 million, representing an increase of 12.7% against 2012 and a contribution to ENDESA's total net income of 37.4%.

EBITDA was Euros 3,443 million, up by 7.3% year-on-year, whilst EBIT was Euros 2,651 million, up by 9.5% against 2012.

These increases were largely due to the effects of Resolution 250/2013 approved on 7 May 2013 by Argentina's Energy Secretariat, which recognised revenues to Empresa Distribuidora Sur, S.A. to compensate for cost fluctuations that had not been passed on to end users between 2007 and February 2013 in application to the adjustment of the Cost Monitoring Mechanism ("MMC"). This meant that Empresa Distribuidora Sur, S.A. recognised a Euros 293 million increase in operating revenues plus Euros 40 million in net finance income in 2013, with a Euros 94 million impact on net income.

This was partially offset by the impact of extra 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 189 million compared to stranded costs incurred to 31 December 2013 of Euros 252 million. Therefore, the amount not covered by the government's extraordinary measures was Euros 63

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.

The results of this business line were also negatively impacted by significant devaluations against the euro of local currencies in which our companies operate, which brought about a decrease of Euros 349 million in EBITDA with respect to the EBITDA that would have been earned if exchange rates had remained at 2012 levels.

## Highlights

The economic panorama in countries in which ENDESA companies operate showed an increase in demand for electricity in 2013, with demand up in Peru (+5.9%) and Chile (+4.3% SIC and +3.8% SING), Argentina (+3.8%), Brazil (+3.5%) and Colombia (+3.2%).

In this situation, distribution sales by ENDESA companies, excluding access charges and unbilled consumption, amounted to 61,512 GWh, an increase of 3.0% on 2012, with higher sales in Brazil (+4.4%), Chile (+4.4%), Peru (+2.7%), Argentina (+1.3%) and Colombia (+1.0%).

Output across ENDESA's generation business shrank by 2.0% to 61,885 GWh. By countries, output fell in Peru (-7.6%), Colombia (-4.1%), Brazil (-3.6%) and Chile (-1.6%), and increased only in Argentina (+3.4%).

<b>Electricity generation and sales in Latin America</b>				
	<b>Generation (GWh)</b>		<b>Distribution (GWh)</b>	
	<b>2013</b>	<b>% Chg. 2012</b>	<b>2013</b>	<b>% Chg. 2012</b>
Argentina	15,743	3.4	14,953	1.3
Brazil	4,992	(3.6)	18,799	4.4
Chile	19,874	(1.6)	13,030	4.4
Colombia	12,747	(4.1)	8,274	1.0
Peru	8,529	(7.6)	6,456	2.7
<b>TOTAL</b>	<b>61,885</b>	<b>(2.0)</b>	<b>61,512</b>	<b>3.0</b>

## Unit margins

The unit margin in the generation business increased by 8.3% to Euros 29.8/MWh. Improvements were observed in Argentina (+32.7%), Chile (+25.2%), Peru (+9.4%) and Colombia (+2.2%), partially offsetting unit margin contractions in Brazil (-9.3%).

The unit margin in the distribution business was Euros 34.7/MWh in the period, widening by 0.2% compared to 2012 due to the increase in Argentina (+125.0%) caused by the one-off recognition of the Cost Controlling Mechanism (MMC) from 2007. In all other countries, the unit margin on distribution activities decreased: Brazil (-18.4%), Colombia (-8.1%), Peru (-8.1%) and Chile (-6.8%).

## New capacity development

At the El Quimbo hydro plant in Colombia (400 MW), work continued in 2013 on securing agreements with the local residents and contracts to be able to commence work on the dam. Agreements are being finalised with those living in the area surrounding the dam and also non-residents, and a contract has been awarded to rebuild alternative routes around this area. The agreement with the local population has enabled the civil engineering contractor to continue earthworks to finish filling the dam.

Meanwhile, the Talara thermal plant in Peru (183 MW) started commercial operations on 11 July 2013.

## **Regulatory developments**

Information on Latin America's regulatory framework is set out in Note 4 to the consolidated financial statements.

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

### **Argentina**

Resolution 95/2013 was published in the Official State Journal 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 be responsible for fuel management and for power and energy bilateral contracts market (Mercado a Término).

Concerning distribution business, on 7 May 2013 Argentina's Energy Office approved Resolution 250/2013 that recognized revenues to Edesur from the Cost Monitoring Mechanism (MMC) which compensated the cost increases that had not been passed on to end users from 2007 to February 2013 with the amounts already collected under the Rational Use of Electricity Programme (PUREE) and other obligations with Compañía Administradora del Mercado Mayorista Eléctrico (CAMMESA). To implement this Resolution, on 6 November 2013 the Energy Secretariat published Note 6852 authorising Empresa Distribuidora Sur, S.A. to carry out the Cost Monitoring Mechanism compensation on debts generated from the Rational Use of Electricity Programme (PUREE) between March and September 2013.

Finally, throughout 2013 the concept of the inspector ("veedor") remained in place and was gradually extended at Empresa Distribuidora Sur, S.A. The inspector was originally appointed in a Resolution by Ente Regulador del Sector Eléctrico (ENRE), Resolution 183/2012. The inspector had originally been the Vice-Chairman of ENRE. Resolution 31/2014 issued by Ente Regulador del Sector Eléctrico (ENRE), however, relieved him of his duties and appointed the Chairman as the new inspector for 90 business days, extendable until 19 June 2014.

### **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 (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 renovation of generation and transmission concessions, and also of a reduction in tariff charges.

On 8 March 2013 Presidential Decree 7.945/2013 was published in the Official State Journal authorising the transfer of government funds to distributors in payment of the extra costs incurred by the distribution companies as a result of the drought, which resulted in an involuntary exposure to 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.

On 11 March 2013 ANEEL approved an extraordinary postponement to 15 April 2013 of the tariff revision process for Ampla Energia e Serviços, S.A., initially scheduled for 15 March. Once in force as of 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. These contemplate an average increase in VAD of 5.5% as of 22 April 2013.

On 23 July 2013 ANEEL produced Resolution 570/2013 laying down the requirements and procedures to create a retail electricity supplier. Pursuant to this Resolution, suppliers or generators may represent agents that contract electricity in the deregulated market, and agents with an installed capacity equal to or less than 50 MW that do not operate a supply contract in the regulated market and/or the reserve market. This regulation is yet another step towards expanding the deregulated market, which currently represents 27% of domestic consumption.

On 13 August 2013 ANEEL produced Resolution 572/2013 establishing a new procedure for granting the electricity social tariff. Under the new procedure, distributors must check whether the low-income consumer is registered on the Federal Government's social programme.

Finally, on 12 December 2013 ANEEL decided to extend the trial period for the new tariff system, known as "flags", until the end of 2014. The proposed "flag" system for tariffs (green, yellow and red flags) has been proposed in response to monthly changes in energy tariffs to customers to indicate higher energy purchase costs. It was initially proposed that the system should come into force in 2014, but ANEEL decided to postpone the scheme for another year to streamline the adjustment.

## **Chile**

On 2 April 2013 a Decree was published in the Official State Journal establishing the tariff formulae applicable to regulated customers 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 are applicable retroactively from 4 November 2012.

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

On 19 August 2013 the government published new regulations for the Environmental Impact Evaluation System. This updates and amends certain procedures so that projects will now be assessed at an earlier stage. Regulatory periods have also been extended and the authorities may now only request information from the company leading the project on two occasions.

Law 20.701 was published in the Official State Journal on 14 October 2013 - this aimed to speed up arrangements for electricity concessions. The new Law simplifies the provisional concession process, shortens administration periods, stipulates possible observations and objections to projects, amends the notifications process, establishes summary legal proceedings, introduces the possibility of division of applications for concessions, amends the procedure for appraisal of property, and resolves conflicts between different types of concessions.

On 22 October 2013 the government passed Law 20.698, in amendment of Law 20.257 promoting the development of non-conventional renewable energy sources ("ERNC"). The new regulation has established a mandatory share of 20% of the total national energy matrix by 2025 for non-conventional renewable energy sources, in due observance of the contract expiration path contemplated in the previous law for contracts in force in July 2013, i.e. for contracts signed between 2007 and July 2013, the target is 10% by 2024, whereas it will be 20% by 2025 for contracts signed after this date.

## **Peru**

On 16 October 2013 the state energy investment and mining supervisor (OSINERGMIN) published Resolution 203/2013 establishing the distribution tariffs for Empresa de Distribución Eléctrica de Lima Norte S.A.A. between November 2013 and October 2017. Under this Resolution, the "VAD" rate (distribution added value) for Empresa de Distribución Eléctrica de Lima Norte, S.A. will increase by 1.2% against the previous VAD rate.

The Peruvian parliament introduced Law N° 30115 on Financial Equilibrium of the Public Sector Budget, published on 2 December 2013 to approve an extension of the timeframe for Emergency Decree N° 049-2008 to 31 December 2016. The decree stipulated that as of 1 January 2009 marginal costs would be determined pursuant to the consideration that there were no restrictions on output or transmission of either natural gas or electricity transmission, and also established that the difference between the variable costs of operations incurred by operators with variable costs exceeding marginal costs would be covered by demand through an additional charge on the transmission fee.

## **Corporate operations**

### **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 minority 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. itself 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 Ltda took over Cono Sur Participaciones, S.L.U., and the latter was wound up. Inversiones Sudamérica Ltda was then dissolved on 1 October 2013, with all the shares contributed by ENDESA through Cono Sur Participaciones, S.L.U. made over directly to Enersis, S.A. These transactions did not impact ENDESA's consolidated financial statements.

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

On 5 April 2013 the ENDESA Costanera S.A. Shareholders' Assembly decided to increase share capital by up to 555 million Argentinian pesos (the equivalent of Euros 76 million) and subsequently issue up to 555 million new ordinary book-entry shares with a nominal value of one

Argentinian peso per share and one voting right per share. Of this sum, Euros 17 million were accounted for by a cash contribution by non-controlling shareholders.

The share capital increase was carried through on 21 November 2013, increasing ENDESA's stake in the company from 69.76% to 75.68%.

### **Voluntary Takeover Bid on Companhia Energética do Ceará, S.A.**

On 14 January 2014 Enersis, S.A. presented a Voluntary Takeover Bid at the share price of 49 Brazilian reais, targeting non-controlling shareholders of Companhia Energética do Ceará, a Brazilian electricity distributor already controlled by ENDESA Brasil, S.A., the holder of 57.87% of its shares.

After the acceptance period had elapsed on 17 February 2014 following the mandatory auction, Enersis, S.A. bought up 2,964,650 ordinary shares, 8,818,006 Class A preference shares and 424 Class B preference shares in the company for a total sum of 242 million US dollars (approximately Euros 175 million), paid over on 20 February 2014.

Consequently, as a result of the Voluntary Takeover Bid, Enersis, S.A. increased its holding in Companhia Energética do Ceará, S.A. by 15.13%, and thus its direct and indirect stake in the company stands, by the date of release of the present report, at 74.00%.

Moreover, by virtue of the outcome of the auction and in accordance with Brazilian legislation and regulations, Enersis, S.A. extended the term of its offer for the ordinary shares of Companhia Energética do Ceará, S.A. for three months, at the same price conditions.

### **EBITDA: Euros 3,443 million**

ENDESA's Latin American business reported EBITDA of Euros 3,443 million in 2013, up by 7.3% against 2012.

The Euros 349 million decrease in EBITDA was due to exchange rate fluctuations between the euro and local currencies of countries in which ENDESA operates.

EBIT stood at Euros 2,651 million, a 9.5% increase compared to 2012 (a negative Euros 266 million due to exchange rate fluctuations between the euro and local currencies).

The breakdown of this income for ENDESA's various businesses is as follows:

	<b>EBITDA</b>			<b>EBIT</b>		
	<b>(Millions of Euros)</b>			<b>(Millions of Euros)</b>		
	<b>2013</b>	<b>2012</b>	<b>% change</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Generation and transmission	1,835	1,695	8.3	1,466	1,317	11.3
Distribution	1,654	1,544	7.1	1,233	1,125	9.6
Other	(46)	(30)	NA	(48)	(22)	NA
<b>TOTAL</b>	<b>3,443</b>	<b>3,209</b>	<b>7.3</b>	<b>2,651</b>	<b>2,420</b>	<b>9.5</b>

The breakdown of income by countries in which ENDESA operates is shown below:

<b>EBITDA and EBIT from business in Latin America – Generation and Transmission</b>						
	<b>EBITDA</b>			<b>EBIT</b>		
	<b>(Millions of Euros)</b>			<b>(Millions of Euros)</b>		
	<b>2013</b>	<b>2012</b>	<b>% change</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Argentina	101	49	106.1	50	4	NA
Brazil	218	256	(14.8)	198	235	(15.7)
Chile	581	457	27.1	434	296	46.6
Colombia	610	602	1.3	553	541	2.2
Peru	257	249	3.2	183	182	0.5
<b>TOTAL GENERATION</b>	<b>1,767</b>	<b>1,613</b>	<b>9.5</b>	<b>1,418</b>	<b>1,258</b>	<b>12.7</b>
Brazil-Argentina interconnection	68	82	(17.1)	48	59	(18.6)
<b>TOTAL GENERATION AND TRANSMISSION</b>	<b>1,835</b>	<b>1,695</b>	<b>8.3</b>	<b>1,466</b>	<b>1,317</b>	<b>11.3</b>

<b>EBITDA and EBIT from business in Latin America – Distribution</b>						
	<b>EBITDA</b>			<b>EBIT</b>		
	<b>(Millions of Euros)</b>			<b>(Millions of Euros)</b>		
	<b>2013</b>	<b>2012</b>	<b>% change</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Argentina	208	(61)	NA	185	(87)	NA
Brazil	566	678	(16.5)	358	491	(27.1)
Chile	268	272	(1.5)	215	217	(0.9)
Colombia	470	503	(6.6)	371	392	(5.4)
Peru	142	152	(6.6)	104	112	(7.1)
<b>TOTAL DISTRIBUTION</b>	<b>1,654</b>	<b>1,544</b>	<b>7.1</b>	<b>1,233</b>	<b>1,125</b>	<b>9.6</b>

## Generation and transmission

### Argentina



Increased output (+3.4%) in 2013 and higher unit margins (+32.7%) due to application of the new regulatory framework brought about an increase in EBITDA of 106.1% against 2012 to stand at Euros 101 million.

EBIT in the year totalled Euros 50 million, up by Euros 46 million against the previous year.

## **Brazil**

ENDESA's Brazilian investees generated a total of 4,992 GWh in 2013, down by 3.6% with respect to 2012, with a fall in generation at the Cachoeira plant due to lower rainfall.

Lower generation activity and unit margins (-9.3%) brought EBITDA down to Euros 218 million (-14.8%). EBIT also contracted by 15.7% to Euros 198 million.

## **Chile**

EBITDA for generation business in Chile in 2013 advanced Euros 124 million (+27.1%) to Euros 581 million.

Despite the unfavourable rainfall conditions in Chile, electricity generation by investees declined by only 1.6% to 19,874 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 (+25.2%) helped boost EBITDA as mentioned above.

EBIT in 2013 climbed by Euros 138 million (+46,6%) with respect to 2012, standing at Euros 434 million.

As a result of the charges brought by the environmental authorities in the Republic of Chile against Empresa Nacional de Electricidad, S.A. following a number of infringements of Exemption Resolution Nº 206, operations have been shut down at the Bocamina II power plant since 17 December 2013 pending the protection appeal process submitted against the company.

## **Colombia**

Lower output in Colombia during the period caused by adverse rainfall (-4.1%) was offset by the positive impact of a larger unit margin (+2.2%).

Generation EBITDA and EBIT rose by Euros 8 million and Euros 12 million year-on-year respectively in 2013, to Euros 610 million and Euros 553 million.

## **Peru**

The total amount of electricity generated by ENDESA companies in Peru stood at 8,529 GWh in 2013, down by 7.6% against 2012.

The negative impact of lower output during the period was compensated by a wider unit margin (+9.4%) and this, along with the sum recognised in connection with the TG7 incident at Santa Rosa (Euros 29 million), brought about a 3.2% increase in EBITDA to Euros 257 million, and a 0.5% increase in EBIT to Euros 183 million.

## **Brazil - Argentina interconnection**

EBITDA and EBIT were Euros 68 million and 48 million respectively in 2013, representing decreases of Euros 14 million and Euros 11 million with respect to 2012.

The negative impact of both these figures against the previous year was mainly due to exchange rate fluctuations between the euro and local currencies.

## **Distribution**

### **Argentina**

Application of Resolution 250/2013 on 7 May 2013 by the Energy Office produced income of Euros 293 million. This offset negative EBITDA in 2013, putting the figure at a positive Euros 208 million compared to a negative Euros 61 million the previous year.

Stripping out this income of Euros 293 million, however, EBITDA would have been a negative Euros 85 million, despite the fact that this amount includes the recognition in Note 6852 of 6 November 2013 of costs not passed on to customers through tariffs up to September 2013, pursuant to the Euros 88 million adjustment by the Cost Monitoring Mechanism ("MMC"), which demonstrates the insufficiency of the mechanism to secure satisfactory profitability in this area of business.

The business also registered an EBIT gain of Euros 185 million, compared to the loss of Euros 87 million the previous year.

### **Brazil**

EBITDA and EBIT in 2013 respectively stood at Euros 566 million and Euros 358 million, a decrease of 16.5% and of 27.1% respectively.

This fall was due to the stranded costs incurred by distributors as a result of the drought, which resulted in an involuntary exposure to the spot market that could not be completely compensated through the mechanism established by Presidential Decree 7.945/2013.

The stranded costs not compensated through the mechanism established by Presidential Decree 7.945/2013 totalled Euros 63 million, which will be recouped in future tariff reviews, as stipulated in Brazilian regulations.

Figures for the Brazil business unit were also affected by exchange rate fluctuations between the euro and the local currency.

The greater decline in EBIT compared to EBITDA was due to the 11.2% increase in depreciation and amortisation charges and impairment losses of Euros 44 million, mainly attributable to certain assets no longer operational.

### **Chile**

The increase in sales volumes (+4.4%) brought about by rising demand (+4.3%) did not offset the narrower unit margin (-6.8%).

EBITDA in the distribution business in Chile totalled Euros 268 million in 2013, down by 1.5% year-on-year, while EBIT shrank by 0.9% to Euros 215 million.

## Colombia

EBITDA and EBIT declined by 6.6% and by 5.4% respectively, to Euros 470 million and Euros 371 million.

Despite higher demand in Colombia (+3.2%) and greater sales volumes (+1.0%), EBITDA and EBIT were reduced due to trends in demand in the city of Bogotá (-3.0%) and a lower unit margin (-8.1%) due to indexation of tariffs on the Producer Prices Index ("IPP").

## Peru

Financial indicators in the distribution business in Peru indicated a decline in 2013 despite the rise in demand (+5.9%) and sales volumes (+2.7%), fuelled by a lower unit margin (-8.1%) caused by the adverse effect of tariff indexation.

This put EBITDA at Euros 142 million, down by 6.6% in 2012, and EBIT at Euros 104 million, a 7.1% decline against 2012.

## Net financial loss: Euros 250 million

ENDESA's Latin America business generated a net financial loss of Euros 250 million in 2013, showing a fall of 34.2% against in 2012. Net finance expense stood at Euros 216 million, down by Euros 127 million, a fall of 37.0%.

When analysing this trend, it must be borne in mind that the business in Argentina generated net financial income of Euros 40 million due to recognition of the amounts to be applied under the Cost Monitoring Mechanism ("MMC"). Net finance expense in 2013 and 2012 included the recognition of charge of Euros 83 million and Euros 180 million respectively to update the financial assets associated with Brazilian distribution concessions, in accordance with Brazilian Federal Law 12.783/13.

Stripping out this impact, net finance expense would have fallen by Euros 184 million (-35.2%) due to the decrease in average financial debt with respect to 2012 and also to the decrease in the average cost of debt.

Net exchange losses of Euros 37 million were recognised for 2012, and stood at Euros 34 million, also negative, in 2013.

## Gross investment: Euros 1,525 million

Gross investment in this business unit amounted to Euros 1,525 million in 2013. Of this amount, Euros 148 million corresponded to financial investments, and Euros 1,377 million to capex and investments in intangible assets, as shown in the table below:

<b>Capex investment and investment in intangible assets in Latin America</b>			
	<b>Millions of Euros</b>		<b>% change</b>
	<b>2013</b>	<b>2012</b>	
Generation	649	530	22.5
Distribution and transmission	439	360	21.9
Other	6	11	(45.5)
<b>TOTAL CAPEX</b>	<b>1,094</b>	<b>901</b>	<b>21.4</b>
<b>Intangible assets(*)</b>	<b>283</b>	<b>290</b>	<b>(2.4)</b>
<b>TOTAL CAPEX AND INVESTMENT IN INTANGIBLE ASSETS</b>	<b>1,377</b>	<b>1,191</b>	<b>15.6</b>

(\*) Includes investment 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.

## 2.3. Statistical appendix

### Key figures

<b>Electricity generation output (GWh)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>70,542</b>	<b>78,316</b>	<b>(9.9)</b>
Mainland	56,179	62,631	(10.3)
Nuclear	25,967	26,967	(3.7)
Coal	19,096	26,063	(26.7)
Hydroelectric	9,511	5,350	77.8
Combined cycle (CCGT)	1,605	4,251	(62.2)
Non-mainland	12,335	13,395	(7.9)
Portugal	1,176	1,360	(13.5)
Other	852	930	(8.4)
<b>Business in Latin America</b>	<b>61,885</b>	<b>63,118</b>	<b>(2.0)</b>
Argentina	15,743	15,222	3.4
Brazil	4,992	5,177	(3.6)
Chile	19,874	20,194	(1.6)
Colombia	12,747	13,294	(4.1)
Peru	8,529	9,231	(7.6)
<b>TOTAL</b>	<b>132,427</b>	<b>141,434</b>	<b>(6.4)</b>

<b>Electricity sales (GWh)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>96,122</b>	<b>102,766</b>	<b>(6.5)</b>
Last Resort Supply ("LRS")	21,913	25,644	(14.5)
Deregulated market	74,209	77,122	(3.8)
<b>Business in Latin America</b>	<b>61,512</b>	<b>59,724</b>	<b>3.0</b>
Argentina	14,953	14,758	1.3
Brazil	18,799	18,000	4.4
Chile	13,030	12,485	4.4
Colombia	8,274	8,193	1.0
Peru	6,456	6,288	2.7
<b>TOTAL</b>	<b>157,634</b>	<b>162,490</b>	<b>(3.0)</b>

<b>Energy distributed (GWh) <sup>(1)</sup></b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>112,031</b>	<b>115,390</b>	<b>(2.9)</b>
<b>Business in Latin America</b>	<b>84,823</b>	<b>81,786</b>	<b>3.7</b>
Argentina	20,334	19,842	2.5
Brazil	26,017	24,758	5.1
Chile	16,002	15,264	4.8
Colombia	14,817	14,447	2.6
Peru	7,653	7,475	2.4
<b>TOTAL</b>	<b>196,854</b>	<b>197,176</b>	<b>(0.2)</b>

(1) At power plant busbars.

<b>Number of customers (Thousands)</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>11,376</b>	<b>11,431</b>	<b>(0.5)</b>
Last Resort Customers	7,574	8,592	(11.8)
Supply on the deregulated market	3,802	2,839	33.9
<b>Business in Latin America</b>	<b>14,511</b>	<b>14,015</b>	<b>3.5</b>
Argentina	2,444	2,389	2.3
Brazil	6,301	6,051	4.1
Chile	1,694	1,659	2.1
Colombia	2,817	2,713	3.8
Peru	1,255	1,203	4.3
<b>TOTAL</b>	<b>25,887</b>	<b>25,446</b>	<b>1.7</b>

<b>Trends in electricity demand (%) (1)</b>	<b>2013</b>	<b>2012</b>
<b>Business in Spain and Portugal (2)</b>	<b>(2.2%)</b>	<b>(1.5%)</b>
<b>Business in Latin America</b>		
Argentina	3.8%	4.2%
Brazil	3.5%	4.5%
Chile (3)	4.3%/3.8%	5.7%/3.9%
Colombia	3.2%	3.8%
Peru	5.9%	5.9%

(1) Source: Red Eléctrica de España, S.A. and in-house.

(2) Corrected for working days and temperature, demand trends were -2.2% in 2013 and -1.9% in 2012.

(3) SIC and SING demand, respectively.

<b>Market share (%) (1)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>			
Ordinary regime generation (2)	36.1	36.7	(1.6)
Distribution	43.0	43.3	(0.7)
Supply	37.5	39.1	(4.1)
<b>Business in Latin America</b>			
<b>Generation</b>			
Argentina	14.4	14.5	(0.7)
Brazil	0.8	0.8	-
Chile	31.9	32.7	(2.4)
Colombia	20.0	20.2	(1.0)
Peru	23.6	25.0	(5.6)
<b>Distribution (3)</b>			
Argentina	20.0	20.0	-
Brazil	5.8	5.0	16.0
Chile	20.0	20.0	-
Colombia	16.0	16.0	-
Peru	18.2	19.0	(4.2)

(1) Source: drawn up in-house.

(2) Mainland.

(3) Provisional data (2013).

<b>Installed capacity (MW)</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>23,322</b>	<b>23,245</b>	<b>0.3</b>
Hydroelectric	4,755	4,716	0.8
Conventional thermal	8,082	9,965	(8.9)
Nuclear	3,686	3,686	-
Combined cycle	5,676	4,755	19.4
Other	123	123	-
<b>Business in Latin America</b>	<b>16,240</b>	<b>16,158</b>	<b>0.5</b>
Argentina	4,522	4,522	-
Brazil	987	987	-
Chile	5,961	5,961	-
Colombia	2,926	2,914	0.4
Peru	1,844	1,774	34.9
<b>TOTAL</b>	<b>39,562</b>	<b>39,403</b>	<b>0.4</b>

<b>Distribution and transmission networks (Km)</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	<b>323,631</b>	<b>325,296</b>	<b>(0.5)</b>
<b>Business in Latin America</b>	<b>316,976</b>	<b>312,705</b>	<b>1.4</b>
Argentina	24,553	24,526	0.1
Brazil	191,697	189,468	1.2
Chile	16,306	16,081	1.4
Colombia	58,326	57,364	1.7
Peru	26,094	25,266	3.3
<b>TOTAL</b>	<b>640,607</b>	<b>638,001</b>	<b>0.4</b>

<b>Energy losses (%)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal</b>	9,4	9,3	1.1
<b>Business in Latin America</b>			
Argentina	10,8	10,6	1.9
Brazil	16,3	16,4	(0.6)
Chile	5,3	5,4	(1.9)
Colombia	7,2	7,5	(4.0)
Peru	7,9	8,2	(3.7)

<b>Installed Capacity Equivalent Interruption Time - ICEIT (minutes)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
<b>Business in Spain and Portugal (average) <sup>(1)</sup></b>	47	52	(9.6)
<b>Business in Latin America</b>			
Argentina	507	669	(24.2)
Brazil	1,219	1,052	15.9
Chile	547	484	13.0
Colombia	143	144	0.7
Peru	805	730	10.3

(1) Corresponds to Spain.

<b>Gas sales in the Spain and Portugal business (GWh)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Deregulated market	47,871	46,053	3.9
Last Resort Tariff market	1,169	1,222	(4.3)
International market	9,463	10,379	(8.8)
Wholesale business	13,213	13,981	(5.5)
<b>TOTAL (*)</b>	<b>71,716</b>	<b>71,635</b>	<b>0.1</b>

(\*) Excluding own-generation consumption.

<b>Gas quotas in the Spain and Portugal business (%)(1)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Deregulated market	15.4	15.8	(2.5)
<b>TOTAL</b>	<b>14.7</b>	<b>14.8</b>	<b>(0.7)</b>

(1) Source: drawn up in-house.

<b>Gas customers in the Spain and Portugal business (Thousands)(1)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Deregulated market	1,214	1,266	(4.1)
<b>TOTAL</b>			

(1) Supply points.

## Financial data

<b>Key figures (Euros)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
EPS (1)	1.77	1.92	(7.6)
CFPS (2)	4.30	4.96	(13.3)
BVPS (3)	19.38	19.51	(0.6)

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

(2) Net cash flows from operating activity / No. shares.

(3) Equity attributable to parent / No. shares.

<b>Profitability indicators</b>	<b>2013</b>	<b>2012</b>
Profitability on equity (1) (%)	7.07	7.97
Return on assets (2) (%)	3.26	3.46
Economic profitability (3) (%)	13.01	13.19

(1) Net income / average equity.

(2) Net income / average total equity.

(3) Operating income / average PP&E.

<b>Net financial debt (Millions of Euros)</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Business in Spain and Portugal	1,440	5,059	(71.5)
Business in Latin America:	2,846	3,719	(23.5)
Enersis, S.A.	2,649	4,144	(36.1)
Other	197	(425)	146.4
<b>TOTAL</b>	<b>4,286</b>	<b>8,778</b>	<b>(51.2)</b>
Leverage (%) (1)	16.0	33.3	NA
Net financial debt / equity (times)	0.16	0.33	NA

(1) Net financial debt / equity



<b>Financial indicators</b>	<b>2013</b>	<b>2012</b>
Liquidity ratio <sup>(1)</sup>	1.21	1.33
Solvency ratio <sup>(2)</sup>	1.06	1.08
Debt ratio <sup>(%) (3)</sup>	13.80	24.98
Debt coverage ratio <sup>(4)</sup>	0.64	1.25

<sup>(1)</sup> Current assets / current liabilities.

<sup>(2)</sup> (Equity + non-current liabilities) / non-current assets.

<sup>(3)</sup> Net financial debt / (equity + net financial debt).

<sup>(4)</sup> Net financial debt / EBITDA.

### 3. Liquidity and capital resources

#### 3.1. Financial management

Country risk indicators were looking much better in Europe's peripheral countries in 2013. Spanish and Italian spreads against 10-year Bund narrowed considerably in the course of the year to 220 basis points at year-end, with respective improvements of 173 and 99 basis points.

The European Central Bank cut its key interest rate by 50 basis points in 2013, 25 basis points in May and 25 basis points in November, bringing it to the historic minimum of 0.25%.

The euro long-term interest rate (swap at 10 years) rose in 2013, from 1.56% at the beginning of the year to 2.15% by year-end. The short-term rate rose from 0.19% to 0.29% in the period.

The long-term interest rate on the US dollar climbed by approximately 70% in 2013 to stand at 3.09% by year-end. The 3-month rate for the US dollar, meanwhile, fell from 0.31% at the beginning of the year to 0.25% at the end of the year.

The euro/dollar exchange rate was extremely volatile in 2013, fluctuating between 1.380 and 1.278, and ending the year at 1.374.

Unlike the situation at year-end 2012, at year-end 2013 Latin American currencies fell against the dollar, with no exceptions, and most especially the Argentinian peso - 33% annually - and the Brazilian real - 15% annually. The devaluation range for other currencies (Chilean peso, Colombian peso and new Peruvian sol) was 9%-10%.

Despite a less favourable international context with respect to previous years, emerging markets managed to stay on the road to growth, securing an average increase of 3.8% in Gross Domestic Product (GDP). As a general rule they maintained their credit ratings, with occasional upgradings as in the case of Argentina, where Standard & Poor's moved its sovereign debt grading up one notch from B- to B.

Countries such as Chile, Peru and Colombia showed positive growth of between 4% and 5%, and inflation under control at between 1.8% and 2.9%. Against a less favourable international backdrop, Brazil continued with its dilemma between growth (GDP +2.3%) and inflation (ICP +6.10%) and its SELIC index rose by 275 basis points, while other Latin American central banks cut their key rates between 50 and 100 basis points.

In this situation ENDESA maintained a solid financial position and a comfortable level of liquidity, enabling it to secure new lines of finance and substantially reduce its debt. The main operations carried out in Business in Spain and Portugal in 2013 were as follows:

- Exercise of the early repayment option on preference shares, thereby cancelling the entire sum pending on the initial Euros 1,500 million issue (Euros 181 million) after an offer for acquisition of the shares for their nominal value in June 2011.
- Disbursements on financial operations with the European Investment Bank on terms of 15 years in the amount of Euros 150 million.

ENDESA also maintained its programme of short-term debt issues on international markets, with an outstanding figure of Euros 814 million at 31 December 2013.

Meanwhile, Latin American Group companies continued to access local and international financial markets in 2013, and the main financial transactions carried out were as follows:

- In Argentina, Hidroeléctrica El Chocón, S.A. took out a three-year syndicated loan with a number of local financial institutions for a total amount of 149 million Argentinian pesos (equivalent to Euros 17 million).
- In Brazil, Ampla Energia e Serviços, S.A. arranged a six-year financial loan of 130 million Brazilian reais (the equivalent of Euros 40 million) with Banco do Brasil. Funding was also secured from Banco Nacional do Desenvolvimento (BNDES) over seven years for capital goods investment in the amount of 250 million Brazilian reais (the equivalent of Euros 77 million). Companhia Energética do Ceará, S.A. also obtained funds from Banco Nacional do Desenvolvimento (BNDES) over seven years for capital expenditures in the amount of 150 million Brazilian reais (the equivalent of Euros 46 million).
- In Chile, Empresa Nacional de Electricidad, S.A. and Enersis, S.A. rolled over their committed credit lines with financial institutions for total amounts of 2 million "unidades de fomento" each (the equivalent of Euros 89 million) for a period of three years.
- In Colombia, Emgesa S.A. E.S.P. brought out a bond issue on the local market in the amount of 565,000 million Colombian pesos (the equivalent of Euros 212 million) with maturities of seven and twelve years. Financial loans (Club Deal) were also renegotiated in the amount of 305,000 million Colombian pesos (the equivalent of Euros 114 million) for a period of ten years. Codensa S.A. E.S.P. also brought out a bond issue on the local market in the amount of 375,000 million Colombian pesos (the equivalent of Euros 141 million) with maturities of five and twelve years.
- In Peru, Empresa de Distribución Eléctrica de Lima Norte, S.A.A. brought out a 20-year domestic bond issue of 50 million new Peruvian soles (the equivalent of Euros 13 million). It also arranged two loans with Banco Bilbao Vizcaya Argentaria in the total amount of 89 million new Peruvian soles (the equivalent of Euros 23 million) over five years, and issued 195 million new Peruvian soles (the equivalent of Euros 50 million) in seven and twenty-five year bonds.

2013 finished with liquidity of Euros 11,567 million (Euros 8,211 million at 31 December 2012), broken down as follows:

Millions of Euros

	Liquidity Structure					
	31 December 2013			31 December 2012		
	Cash <sup>(1)</sup>	Available <sup>(2)</sup>	Total Liquidity	Cash <sup>(1)</sup>	Available <sup>(2)</sup>	Total Liquidity
ENDESA and direct subsidiaries	2,036 <sup>(3)</sup>	6,683	8,719	628	5,790	6,418
Energis	2,299	549	2,848	1,358	435	1,793
<b>TOTAL ENDESA</b>	<b>4,335</b>	<b>7,232</b>	<b>11,567</b>	<b>1,986</b>	<b>6,225</b>	<b>8,211</b>

(1) Cash and cash equivalents.

(2) Available unconditionally on lines of credit, of which, as of December 31, 2013; Euros 3,500 million correspond to a credit line secured with ENEL Finance International, N.V. having not drawn any amount at that date (31 December 2012, 3,000 million euros and 500 million euros, respectively).

(3) Of this amount, at 31 December 2013, Euros 1,000 million had been placed with ENEL Energy Europe, S.L.U. and were cancelled on 2 January 2014 on payment of the interim dividend.

In general, cash and cash equivalents mature within three months from their acquisition date and earn interest at market rates for this type of deposit. At 31 December 2013 Latin American subsidiaries also had cash placements in financial instruments with maturities of over three months in the amount of Euros 1,029 million (Euros 307 million at 31 December 2012).

The details of placements of sovereign debt and cash equivalents are set out in Notes 13 and 14 to the consolidated financial statements.

There are no restrictions for material amounts on the availability of cash. Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 14, 15.1.9 and 38.1 to the consolidated financial statements.

ENDESA's net financial debt stood at Euros 4,286 million at 31 December 2013 (Euros 8,778 million at 31 December 2012), as follows:

Millions of Euros

Net financial debt	31 December 2013	31 December 2012	% change
Business in Spain and Portugal	1,440	5,059	(71.5)
Business in Latin America:	2,846	3,719	(23.5)
Energis	2,649	4,144	(36.1)
Other	197	(425)	146.4
<b>TOTAL</b>	<b>4,286</b>	<b>8,778</b>	<b>(51.2)</b>

The average cost of debt in 2013 and 2012 was as follows:

(%)

	31 December 2013			31 December 2012		
	ENDESA and direct subsidiaries	Energis	Total ENDESA	ENDESA and direct subsidiaries	Energis	Total ENDESA
Average cost	3.1	8.1	5.7	3.5	8.6	5.7

ENDESA prefers its debt maturity profile to match its capacity to generate cash flows for repayments in order to provide a certain amount of room for manoeuvre.

The average lifespan of net financial debt with ENDESA at year-end 2013 and 2012 was as follows:

Number of years	31 December 2013			31 December 2012		
	ENDESA and direct subsidiaries	Energis	Total ENDESA	ENDESA and direct subsidiaries	Energis	Total ENDESA
Average lifespan	6.1	5.7	5.9	4.7	5.5	5.1

Information concerning the maturities of ENDESA's financial debt is set out in Note 18 to the consolidated financial statements.

ENDESA continued to deploy a policy whereby its companies' debt is always denominated in the currency in which its cash flows are generated. At year-end 2013, 38% of its debt was denominated in euros, 26% in US dollars, and 36% in other currencies, mostly Latin American currencies. The structure of net financial debt by currencies at 31 December 2013 and 2012 was as follows:

Millions of Euros	2013		2012	
	Millions of Euros	% of total	Millions of Euros	% of total
Euro	1,620	38	4,558	52
US dollar	1,098	26	1,753	20
Chilean Peso / Unidades de Fomento	(279)	(7)	479	5
Brazilian real	405	9	549	6
Other currencies	1,442	34	1,439	17
<b>TOTAL</b>	<b>4,286</b>	<b>100</b>	<b>8,778</b>	<b>100</b>

The proportion of fixed-rate debt in the total volume of net financial debt was 64% at 31 December 2013, while the remaining 36% was variable rate.

The breakdown of the structure of ENDESA's fixed-rate and variable-rate debt was as follows at 31 December 2013 and 31 December 2012:

Millions of Euros	2013		2012	
	Millions of Euros	% of total	Millions of Euros	% of total
Fixed rate	2,740	64	4,767	54
Variable rate	1,546	36	4,011	46
<b>TOTAL</b>	<b>4,286</b>	<b>100</b>	<b>8,778</b>	<b>100</b>

## 3.2. Capital Management

ENDESA's capital management focuses on maintaining a solid financial structure that optimises the cost of capital and the availability of financial resources to guarantee business continuity over the long term. This policy of financial prudence makes it possible to maintain

an adequate level of value creation for shareholders while guaranteeing ENDESA's liquidity and solvency.

ENDESA considers that an indicator of its ongoing financial position is its consolidated leverage ratio, which is the result of dividing net financial debt by equity. Details of this ratio at 31 December 2013 and 31 December 2012 are as follows:

Millions of Euros

	<b>Leverage ratio</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Net financial debt:</b>	<b>4,286</b>	<b>8,778</b>
Non-current interest-bearing loans and borrowings	7,551	9,886
Current interest-bearing loans and borrowings	1,152	974
Cash and cash equivalents	(4,335)	(1,986)
Derivatives recognised as financial assets	(82)	(96)
<b>Equity:</b>	<b>26,769</b>	<b>26,369</b>
Of the parent	20,521	20,653
Of non-controlling interests	6,248	5,716
<b>Leverage ratio (%)<sup>(*)</sup></b>	<b>16,0</b>	<b>33,3</b>

(\*) Net financial debt / equity.

In view of the exceptional economic situation in recent years and the complex regulatory situation of the Spanish electricity market, over the last few years ENDESA has operated an extremely prudent financial policy geared towards reducing net financial debt, and this has brought about a gradual reduction of the net debt/equity ratio.

Thus, in due consideration of the leverage ratio at 31 December 2013, a decision was taken by the Board of Directors at a meeting on 17 December 2013 to distribute a gross interim dividend of Euros 1.5 to shareholders on 2013 earnings. This was paid out on 2 January 2014, in the total amount of Euros 1,588 million.

At the date on which this consolidated management report was released, ENDESA had not commitments to obtaining funds through its own sources of finance.

### 3.3. Credit rating management

Greater optimism in 2013 in view of Spain's macroeconomic conditions and prospects, as demonstrated by the positive perspective of the country's sovereign bonds announced by the three main rating agencies, was in contrast to the persistent difficulties remaining in the electricity sector. These difficulties related both to fundamentals and regulatory aspects, motivated that hardly any changes were made to the ENDESA rating in 2013.

Regulatory uncertainty led Fitch Ratings to put ENDESA rating on negative watch at the beginning of July, although this was pending a decision at the release of this consolidated management report. In the same month Standard & Poor's downgraded one notch ENDESA rating to BBB (from BBB+), with "stable outlook" (from "negative outlook") just after Royal Decree Law 9/2013 of 12 July was announced to reintroduce tariff sufficiency.

Moody's, meanwhile, made no changes in 2013 to the company's rating, which remained Baa2 with "negative outlook".

Developments in ENDESA's credit ratings were as follows:

	31 December 2013 <sup>(*)</sup>			31 December 2012 <sup>(*)</sup>		
	Long-term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB	A-2	Stable	BBB+	A-2	Negative
Moody's	Baa2	P-2	Negative	Baa2	P-2	Negative
Fitch Ratings	BBB+	F2	Review Negative	BBB+	F2	Negative

<sup>(\*)</sup> At the respective dates of the consolidated financial statements.

At year-end 2013 the ENDESA credit rating was still "investment grade" for all rating agencies.

ENDESA considers the rating assigned by the agencies not only reflects ENDESA's financial position, as all three claim the rating is not only affected by ENDESA's situation, but also by the rating of ENEL, as it controls ENDESA. Accordingly, ENDESA's rating cannot be higher than ENEL's even if its financial structure warranted this.

At any rate, the rating assigned by the agencies would enable the Company to tap financial markets on reasonable terms if need be.

### 3.4. Cash flows

At 31 December 2013, cash and cash equivalents stood at Euros 4,335 million, an increase of Euros 2,349 million compared to the figure at 31 December 2012.

ENDESA's operating activities generated cash flows of Euros 4,551 million in 2013.

ENDESA allocated Euros 1,624 million to investing activities in the course of the year. It should be pointed out that these flows are net, and include Euros 3,751 million from the proceeds related to tariff deficit previously financed by the Company, of which Euros 210 million were accounted for by normal proceeds from regulated earnings in the electricity system, and Euros 3,541 million for assignment of collection rights to the Deficit Securitisation Fund for the Electricity System ("FADE"). Cash flows used to finance the deficit in 2013 stood at Euros 2,605 million.

In 2013 ENDESA allocated Euros 273 million to financing activities. Net flows from financing activities included the collection of Euros 1,730 million for the capital contribution by minority shareholders, mainly at Enersis, S.A. (net of the associated costs) , and dividend payments of Euros 539 million to minority shareholders. The remainder of this item, Euros 1,481 million, was accounted primarily for net repayments on debt in the course of 2013.

Finally, it must be considered that the impact of exchange rates on ENDEA's cash and cash equivalents in Latin America denominated in currencies other than the euro reduced cash and cash equivalents in euros by Euros 305 million in 2013.

Normally the flows generated by ENDESA's operating activities are sufficient to cover the investment required to develop business. To meet debt repayments, ENDESA will probably use the rest of the funds from operating activities, it may arrange bank loans and will use undrawn lines of long-term credit commitments through banks and through ENEL Finance International, N.V. ENDESA also intends to continue to secure financing through the issuance of short-term instruments on capital markets.

In 2013 and 2012, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

Millions of Euros

	Net Cash Flows					
	31 December 2013			31 December 2012		
	Spain and Portugal	Latin America	TOTAL	Spain and Portugal	Latin America	TOTAL
<b>Cash and cash equivalents at beginning of year</b>	<b>574</b>	<b>1,412</b>	<b>1,986</b>	<b>907</b>	<b>1,881</b>	<b>2,788</b>
Net cash flows from operating activities	2,262	2,289	4,551	3,114	2,133	5,247
Net cash flows from investing activities	489	(2,113)	(1,624)	(397)	(1,565)	(1,962)
Net cash flows from financing activities	(1,289)	1,016	(273)	(3,050)	(1,080)	(4,130)
<b>TOTAL NET CASH FLOWS</b>	<b>1,462</b>	<b>1,192</b>	<b>2,654</b>	<b>(333)</b>	<b>(512)</b>	<b>(845)</b>
Net increase/(decrease) in cash and cash equivalents	1,462	887	2,349	(333)	(469)	(802)
<b>Cash and cash equivalents at year-end</b>	<b>2,036</b>	<b>2,299</b>	<b>4,335</b>	<b>574</b>	<b>1,412</b>	<b>1,986</b>

### 3.5. Contractual obligations and off-balance sheet obligations

Information concerning future purchase commitments is provided in Notes 5, 7, 10, 11 and 38 to the consolidated financial statements.

Millions of Euros

	31 December 2013	31 December 2012
Property, plant and equipment	762	827
Intangible assets:	74	123
CO <sub>2</sub> , CERs and ERUs	59	122
Other intangible assets	15	1
Financial assets	(*)	(*)
Purchases of fuel stocks	25,532	30,937
Electricity purchases	28,291	38,434
<b>TOTAL</b>	<b>54,659</b>	<b>70,321</b>

(\*) ENDESA has not drawn up any agreements with major financial investment commitments, with the exception of the obligation to finance the revenue shortfall from regulated activities and the social tariff in Spain (see Note 4.1. to the consolidated financial statements).

ENDESA has no Special-Purpose Entities, understood as entities that the Group, even when it does not hold a controlling interest, effectively controls, understood as the fact that it substantially obtains most of the profits earned by the entity and retains most of the risks involved, even when a controlling interest is not held.

### 4. Events after the reporting period

Information concerning events after the reporting period is provided in Note 41 to the consolidated financial statements.

## **5. Outlook**

### **5.1. Strategy**

#### **Business in Spain and Portugal**

The outlook for Spain and Portugal is affected by lower demand for electricity caused by stagnation of the Spanish economy, and the regulatory measures introduced to mitigate the tariff deficit. Against this backdrop, the Strategic Plan for business in Spain and Portugal will focus on dealing with the heightened regulatory framework by concentrating on profitability through cost-cutting and streamlining investment in accordance with the new situation.

These strategic priorities will be achieved through the following key courses of action:

- Generation and supply: optimising investment and focusing on energy supplies in order to retain margins.
- Distribution: achievement of operating excellence by reducing operating and maintenance costs; provision of new added-value products and services, such as the deployment of digital meters.
- Active management of regulation.

#### **Business in Latin America**

ENDESA looks set to benefit from the solid macroeconomic situation in the region, and favourable and attractive regulatory environments in terms of both generation and distribution to boost operating performance. With this in mind, the Strategic Plan for business in Latin America will focus on consolidating the company's dominant position by exploiting growth opportunities.

These strategic priorities will be achieved through the following key courses of action:

- Generation and supply: increasing installed capacity to help the company move in on regional growth, boosting the efficiency of existing plants and launching new areas of business such as gas supplies.
- Distribution: securing growth through new customer connections, new technology projects such as the deployment of digital meters and energy loss reduction programmes.
- Active management of regulation, with particular emphasis on active management of tariff review processes for distributors.

The Strategic Plan will provide a response to the system's foreseeable behavioural levels, adopting a prudent and realistic stance in a situation of economic crisis, in accordance with trends in demand and market conditions.

### **5.2. Outlook**



The outlook for ENDESA's business for the years to come is underpinned by a solid position in its markets.

In recent years ENDESA has carried out major restructuring of its asset portfolio, maintaining its dominant position in most of the countries where it operates. This has enabled it to attain a solid financial and liquidity position despite the challenging macroeconomic and financial backdrop and the situation of markets.

Amid widespread uncertainty caused by worldwide economic crisis, it is worth noting that there are significant differences in the macroeconomic situation in the various markets where ENDESA operates.

In Spain, although the latter half of 2013 would appear to have witnessed an improvement in certain economic indicators, and market forecasts with regard to Gross Domestic Product (GDP) in 2014 are optimistic, the economic panorama in the short run is complicated and policies are conditioned by public deficit commitments and this makes the road to recovery quite a slow trajectory.

A number of different packages of reform measures for the energy sector were also introduced in 2013, with a view to finally curtailing the persistent imbalances of the electricity system. The main regulatory changes were introduced by Royal Decree Law 2/2013 of 1 February and Royal Decree Law 9/2013 of 12 July, adopting measures to guarantee the financial stability of the electricity system in the new Electricity Sector Law and a number of implementing regulations. These measures, in addition to those adopted in 2012, have an adverse effect on ENDESA's regulated and deregulated business margins.

In Latin America, meanwhile, the electricity market and economic situation is different. In Latin American countries in which ENDESA operates, GDP growth prospects would appear to be favourable in accordance with a range of estimates, although these countries are vulnerable to volatile environments and their currencies are exposed to certain macroeconomic tensions. The majority of these countries have "investment grade" credit ratings, and lower risk than the average for the rest of the region. Regulatory frameworks are, in general, stable and predictable, and augur well for the development of ENDESA's business activities.

In the years ahead ENDESA plans to earmark the necessary investment to maintain its business position. Particular emphasis will be placed on investment in Latin America, where the expected growth and regulatory stability in the majority of the countries where ENDESA operates will allow the group to obtain a sound return on its investments with limited risk.

The only exception in Latin America is Argentina, where both the country's general economic situation and the regulatory situation of the electricity sector prevent any appropriate returns on investment, and thus the financial position of ENDESA subsidiaries in Argentina is extremely delicate, and this generates enormous uncertainty as to their future trajectories. This risk, however, is limited, because at 31 December 2013 the net value accounted for by Argentinian assets and liabilities in ENDESA's consolidated financial statements, excluding the portion held by non-controlling shareholders amounted to only Euros 124 million.

ENDESA will also continue to work hard on its commitment to secure excellence in processes and operations, focusing on the synergies of its integration with the ENEL Group.

## **6. Main risk factors and uncertainties in connection with ENDESA business**

ENDESA's activities are carried out in an environment in which exogenous factors may affect its operations and financial performance.

The main risk factors to which ENDESA's operations are exposed are as follows:

### **6.1. Business and sector-related risk factors**

**ENDESA's activities are subject to extensive regulation, and regulatory changes could have an adverse impact on its activities, financial position and business performance.**

ENDESA's activities are subject to extensive regulation, and regulatory changes could have an adverse impact on its activities, financial position and business performance.

ENDESA's subsidiaries are subject to wide-ranging regulations concerning tariffs and other business aspects in Spain and all countries in which they operate. Although ENDESA complies substantially with all prevailing laws and regulations, it is subject to a complex framework of laws and regulations that the various public and private bodies will endeavour to apply. The introduction of new laws and regulations or amendments to current laws and regulations could have an adverse effect on the Group's activities, economic situation and the results of its operations.

These new laws or regulations sometimes modify certain regulatory aspects that could affect existing rights which, if applicable, could have an adverse effect on ENDESA's future financial statements.

Information on sectoral regulations and operation of the electricity system is provided in Note 4 to the consolidated financial statements.

**ENDESA's activities are subject to a number of environmental regulations, amendments to which could have an adverse impact on its activities, financial position and business performance**

ENDESA and its subsidiaries are subject to environmental legislation which, among other issues, demands that environmental impact studies be carried out for future projects. Licences, permits and other authorisation must be obtained in advance, and all their requirements must be adhered to at all times. As in any regulated company, ENDESA cannot guarantee that:

- The authorities will approve these environmental impact studies.
- Public opposition will not delay projects, or force the Group to amend them.
- Laws and regulations will not be amended or interpreted in such a way that the financial outlay required to comply with them will increase. Likewise, operations, facilities or plans for companies related to ENDESA may be affected.

Certain environmental requirements have been tightened in ENDESA's operating markets in recent years. Although ENDESA has furnished the necessary investment to meet these requirements, their application and any future amendments could have an adverse impact on its activities,

financial position and business performance. The results of its operations may also be affected by the price of carbon emission rights, or by a market shortage.

**A considerable amount of ENDESA's power is produced in markets subject to market forces that may affect prices and the amount of energy sold by ENDESA**

ENDESA is exposed to market price and availability risk in connection with purchases of fuel (including fuel-gas, coal and natural gas) used to generate electricity and sales of a portion of the power it produces. ENDESA has entered into long-term supply contracts to guarantee a secure supply of fuel for its generation activities in Spain. The Group has various natural gas supply contracts with take-or-pay clauses. These contracts have been established based on reasonable assumptions regarding future requirements. Any major divergences from these assumptions could require larger fuel purchases than needed.

Exposure to this risk is managed long term through the diversification of contracts, management of the procurements portfolio by tying it to indexes that perform in a similar or comparable way to final electricity prices (generation) or selling prices (supply), and through periodic contractual renegotiation clauses, the aim of which is to maintain the economic equilibrium of procurements. Short and medium-term fluctuations in procurement prices are managed through specific hedging transactions, usually with derivatives. Although ENDESA actively manages these risks, there can be no assurance that this approach will eliminate all the market price risks arising from fuel requirements.

**ENDESA's activities could be affected by rainfall and weather conditions**

ENDESA's operations include hydroelectric generation and are therefore dependent on rainfall at all times in the regions where ENDESA has hydroelectric facilities. If there is a drought or any other conditions that have a negative impact on hydro generation, earnings could be adversely affected. The electricity business is also affected by climatic conditions such as average temperatures, which determine consumption. Margins obtained on the business can vary according to climatic conditions.

**The construction of new facilities could be affected by factors normally associated with these types of projects.**

The construction of power generation, transmission and distribution facilities is time-consuming and can be complicated.

This means that investment needs to be planned well in advance of the estimated start-up date of the facility. Any changes in the market conditions mean that the Group needs to adapt its decisions to the new conditions, which may entail additional unplanned costs.

Moreover, when developing these facilities, ENDESA must generally obtain government permits and authorisations, purchase land or sign leases, enter into equipment procurement and construction contracts, operating and maintenance contracts, fuel supply and transport contracts and consumption agreements, and also ensure it has sufficient financing in the form of capital and debt instruments. The following factors may affect the Group's capacity to build new facilities:

- Delays in obtaining regulatory approval, including environmental permits.
- Shortages or changes in the price of equipment, supplies or labour.
- Opposition by political or ethnic groups.

- Adverse changes in the political and regulatory backdrop in countries where it operates.
- Adverse meteorological conditions which could delay completion of power plants or substations, natural disasters, accidents or other unforeseen incidents.
- Proper compliance by suppliers with the contracts drawn up.
- Inability to obtain financing at interest rates that are satisfactory to ENDESA.

Any of these factors could delay commencement or completion of construction projects, and could increase the cost of the intended projects. Any costs incurred by ENDESA if it is unable to complete these projects may not be recoverable.

### **ENDESA could be held liable for environmental, criminal or other responsibilities in relation to its operations**

ENDESA is exposed to environmental risks inherent to its operations, including those relating to the management of waste, spillages and emissions at its electricity production units, particularly nuclear power plants. ENDESA may therefore be held liable for claims for environmental damage or other types of damage in connection with its electricity generation, transmission and distribution facilities, and also coal mining activities.

ENDESA is also subject to risks relating to the operation of its nuclear plants and the storage and handling of low-level radioactive material. Spanish legislation and regulations limit the responsibility of operators of nuclear power plants in the event of an accident. Those limits are consistent with the international treaties ratified by Spain. Under Spanish legislation, nuclear plant operators are liable for a maximum of Euros 700 million in claims arising in relation to a single nuclear accident. ENDESA has liability insurance of up to Euros 700 million in place to cover any claims in this regard. Nuclear power plants are also insured against damage to their facilities (including stocks of nuclear fuel) and machinery breakdowns, with maximum coverage of Euros 1,000 million for each plant.

ENDESA has also taken out insurance of up to Euros 200 million in relation to claims arising as a result of pollution or other damage to third parties or their property. However, on 28 May 2011 the Spanish government published Law 12/2011 of 27 May on civil liability for nuclear damage or damage caused by radioactive materials, raising operator liability to Euros 1,200 million, while also allowing operators to cover this liability in several ways. This legislation will take effect on the introduction of the Protocol of 12 February 2004 amending the Nuclear Third-Party Liability Convention (Paris Convention) and the Protocol of 12 February 2004 amending the complementary Convention (Brussels Convention). If ENDESA were sued for environmental damage or other damage in connection with its operations (except nuclear plants) for any amount in excess of its insurance cover, its activity, financial position or earnings could be adversely affected.

Also, following the introduction of Organic Law 5/2010 of 22 June, amending Organic Law 10/1995 of 23 November forming part of the Penal Code, legal entities can be held fully responsible for certain criminal acts committed by their directors, management or employees when carrying out their respective functions. In this regard, ENDESA has a control system in place to prevent corporate offences or mitigate any of their consequences.

### **Deregulation of the electricity sector in the European Union could lead to greater competition and lower prices.**

Deregulation of the electricity sector in the European Union has led to greater competition due to consolidation and the entry of new players in electricity markets, including Spain. Deregulation of the electricity sector in the European Union has also caused prices to fall in some market segments due to the entry of new competitors and foreign power suppliers. European electricity exchanges have also been established. These factors have led to greater liquidity in electricity markets. Deregulation means that many of ENDESA's businesses now operate in increasingly competitive markets. If ENDESA is unable to adapt to and correctly manage this competitive environment, its business operations, financial position and earnings could be adversely affected.

## **6.2. Risk factors associated with countries in which ENDESA operates**

### **ENDESA companies are exposed to a number of economic and political risk factors**

ENDESA's business activities are exposed to various risks inherent in investing in and carrying out work in the various countries where ENDESA operates, including risks relating to the following:

- Changes to government regulations and policies.
- Application of monetary restrictions or other restrictions on capital movements.
- Changes in the business or political situation.
- Economic crises, political instability or social unrest that may affect operations.
- Government expropriation of assets.
- Interest and exchange rate fluctuations.

Revenue from subsidiaries, their market value and dividends received from these subsidiaries are also exposed to risks inherent in the countries where they operate. This may negatively affect demand, consumption and exchange rates.

ENDESA is unable to forecast how any future worsening of the political or economic climate in the countries where it operates, or any other changes to legislation or regulation in those countries, including changes to prevailing legislation or any other regulatory framework, may affect its subsidiaries, activities, financial position or the results of its operations.

## **6.3. Operational risks**

### **ENDESA's activity can be affected by technological failures or human error.**

In the course of all ENDESA's business activities, direct or indirect losses may be caused by inadequate internal processes, technological failures, human error or certain external events. Control and management of these risks, particularly those affecting generation and distribution facilities, are based on proper training and capacitation of personnel and operating procedures, preventative maintenance plans and specific programmes, backed up by quality management systems to minimise their possible occurrence and impact.

ENDESA has insurance cover to mitigate the adverse financial ramifications of emergence of these risk factors.

These types of risks could affect the reliability of the financial information drawn up by ENDESA. For proper monitoring of these risks, ENDESA has implemented a system for internal control of financial reporting (hereinafter "ICFR").

ENDESA's Annual Corporate Governance Report is attached as Appendix I to this management report and includes a report on ENDESA's Internal Financial Reporting Control System ("SCIIF"), drawn up on the basis of the Circular issued by Spain's securities market regulator (CNMV). In compliance with this circular, Endesa's auditors have issued a report on their review of the information in the ICFR report in accordance with professional conduct guidelines.

## **6.4. Financial risks**

### **ENDESA's earnings are exposed to certain market risks**

ENDESA is exposed to various market risks in the ordinary course of its business. These include interest rate risk, commodity price risk and currency risk. ENDESA manages these risks actively to prevent them from having a material impact on its earnings.

#### *Interest rate risk*

Interest rate fluctuations change the fair value of assets and liabilities bearing interest at fixed rates and the future flows from assets and liabilities indexed to variable interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimise the cost of the debt over several years with reduced income statement volatility.

Depending on ENDESA's estimates and targeted debt structure, hedging transactions are carried out by arranging derivatives to mitigate these risks.

Exposure to fluctuations in interest rates is controlled by monitoring any overstepping of the risk limits to reflect appetite for risk and debt structure defined by the Iberia and Latin America Risk Committees.

Note 19.1 to the consolidated financial statements sets out financial assets and liabilities, classified by interest rates.

#### *Currency risk*

Currency risk essentially affects the following transactions:

- Debt denominated in foreign currencies arranged by ENDESA companies and associates.
- Payments to be made in international markets for purchases of fuel stocks.
- Income and expenses of Latin American subsidiaries in their functional currency and, in some cases, tied to performance of the US dollar.

Net assets relating to net investments in foreign operations with a functional currency other than the euro are also exposed to the risk of exchange rate fluctuations in the translation of the financial statements of these foreign operations on consolidation.

In order to mitigate this risk, ENDESA has arranged derivative contracts and arranged US dollar-denominated debt to hedge US dollar-denominated income. ENDESA also strives to balance cash collections and payments for its assets and liabilities in foreign currencies. However, risk management strategies may not be fully efficient in limiting exposure to variability of interest and foreign currency exchange rates, which could have an adverse impact on financial position and results.

Exposure to fluctuations in exchange rates is controlled by monitoring any overstepping of the risk limits to reflect appetite for risk and debt structure defined by the Iberia and Latin America Risk Committees.

Note 19.2 to the consolidated financial statements sets out financial assets and liabilities, classified by exchange rates.

#### *Risk in connection with the price of financial instruments*

ENDESA is exposed to risk of the price of its investments in financial instruments, mainly due to fluctuations in interest rates and exchange rates, and also fluctuations in the prices of certain financial instruments quoted on markets.

This risk is managed by identifying investments that optimise returns through payment of interest or dividends and differences between selling and buying prices.

Exposure to fluctuations in the price of financial instruments is controlled by monitoring the risk thresholds defined by the Iberia and Latin American Risk Committees, drawn up on the basis of maximum variations in the market value of the instruments.

Information on measurement of risks is provided in Note 19.7 to the consolidated financial statements.

#### *Commodity price risk*

ENDESA is exposed to the risk of changes in energy commodity prices, including CO<sub>2</sub> emission rights, Certified Emission Reductions (CERs) and Emission Reductions Unit (ERUs) mainly through:

- Purchases of fuel stocks in the electricity generation process.
- Power sale and purchase transactions on domestic and international markets.

Exposure to this risk in the long term is managed by diversifying contracts, managing the procurements portfolio by reference to indexes with a similar or comparable trend to that of final prices for electricity (generation) or the trend in selling (supply) prices and through regularly renegotiated contractual clauses to maintain the economic balance of procurements. In the short and medium term, fluctuations in commodity prices are managed through specific hedges, generally derivatives.

Exposure to fluctuations in commodity prices is controlled by monitoring risk thresholds reflecting the appetite for risk defined by the Iberia and Latin America Risk Committees. These limits are based on expected results based on a confidence interval of 95%.

Individual analyses are also performed on the impact of certain relevant transactions on ENDESA's risk profile and delivery of its predefined limits.

Information on measurement of risks is provided in Note 19.3 to the consolidated financial statements.

### *Credit risk*

Given the current economic climate, ENDESA is monitoring credit risk very closely indeed.

Historically, credit risk on trade receivables is very limited, given the short period of collection from customers, as supply may be cut off in accordance with the applicable regulations before any significant arrears are accumulated.

Given the current economic and financial situation, ENDESA takes certain additional precautions, including:

- Risk analysis, assessment and monitoring of counterparty credit quality.
- Requests for collateral where required.
- Requests of guarantees for transactions with new customers.
- Exhaustive monitoring of trade receivables.

ENDESA's policies for managing credit risk on financial assets are as follows:

- Cash is deposited with top-tier entities in markets where the Group operates.
- Derivatives and hedges of credit risk arising from commodity transactions of a financial nature are arranged with highly solvent entities.

Credit risk in relation to financial instruments is controlled by monitoring the risk thresholds defined by the Iberia and Latin America Risk Committees, established in terms of credit quality and maximum counterparty exposure.

Although the measures taken by ENDESA considerably reduce its exposure to credit risk, in view of the current economic climate there can be no assurance that ENDESA will not incur losses due to non-payment of commercial or financial receivables.

Information on credit risk is provided in Note 19.5 to the consolidated financial statements.

### *Liquidity risk*

ENDESA's liquidity policy consists of arranging long-term credit facilities with both banking entities and ENEL Group companies and financial investments in an amount sufficient to cover projected needs over a given period, based on the status and expectations of debt and capital markets.

Exposure to liquidity risk is controlled by monitoring the predefined risk thresholds set by the Iberia and Latin America Risk Committees.

However, there can be no assurance that a prolonged liquidity crisis, preventing issuers from tapping capital markets, will not have an adverse impact on ENDESA's liquidity.



Information on liquidity risk is provided in Note 19.4 to the consolidated financial statements.

#### *Customer concentration risk*

ENDESA is exposed to customer concentration risk in its commercial business.

This type of risk is managed and minimised by a business strategy with several diversification criteria: geographic (business in different countries and regions), customer typology (large industrial customers, medium-sized companies and residential customers, both private individuals and public authorities), economy activity of customers (business with customers operating in different sectors), and types of product sold (electricity, natural gas and various added-value services).

This strategy ensures that sales to a specific customer do not account for a major portion of ENDESA's economic results.

This risk is controlled by regular monitoring of trade receivable accounts (debts due and unpaid) for individuals and groups of companies under joint control.

Information on customer concentration risk is provided in Note 19.6 to the consolidated financial statements.

### **6.5. Other risks**

#### **ENDESA is party to legal and arbitration proceedings**

ENDESA is party to various ongoing legal proceedings related with its business, including tax and regulatory disputes. It is also subject to ongoing or possible tax inspections. In general, ENDESA is exposed to third-party claims from all jurisdictions (criminal, civil, commercial, corporate and contentious-administrative) and in national and international arbitration proceedings.

Although ENDESA considers that proper provision has been made for legal contingencies at 31 December 2013, there can be no assurance that ENDESA will be successful in all proceedings or that an adverse ruling will not have a material adverse impact on its business operations, financial position or earnings. Nor is there any guarantee that new claims could also be submitted with a major adverse effect.

Information on litigation and arbitration is provided in Note 17.3 to the consolidated financial statements.

### **7. Risk management policy and derivative financial instruments**

Information regarding ENDESA's risk management policy and derivative financial instruments is provided in Notes 19 and 20 to the consolidated financial statements.

## 8. Technology, innovation and environmental protection

### 8.1. R+D+i activities

ENDESA operates an open structured innovation model, with contributions from internal and external agents, to promote the development of an international industrial knowledge-based fabric to produce a new energy model focusing on the general public, in accordance with European directives.

In 2013 four new applications were submitted for industrial patent rights for the following in-house technology solutions:

- Distributed system for optimisation and energy management in buildings.
- System to control the charging/discharging of electrical vehicles, and charging procedure using this system.
- Electricity distribution point with a built-in earth connection.
- Device for non-invasive outage-free identification of customer connections on the distribution network ("LOF").

Direct investment by ENDESA in R+D+i in 2013 and 2012 was as follows:

Millions of Euros

<b>Direct R+D+i investment</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Business in Spain and Portugal	23	75	(69.3)
Business in Latin America	17	9	88.9
<b>TOTAL</b>	<b>40</b>	<b>84</b>	<b>(52.4)</b>
Projects carried through <small>(No)</small>	220	90	144.4
Patents for in-house technology solutions submitted <small>(No)</small>	4	5	

In addition to the above, there was further investment by technology partners in R+D+i projects and consortiums spearheaded by ENDESA.

Throughout the year, ENDESA boosted coordination with ENEL on all research, technology development and innovation projects, in areas of common interest and in markets operated by both groups on the Strategic Research Programme, consisting of eight research projects in major technologies deployed by the entire ENEL Group, as follows:

1. Operating flexibility at plants.
2. Automation and advanced diagnoses.
3. Energy storage and management tools for variable resources.
4. Pollution and waste control.
5. Cybersafety and zero-accident schemes.

6. New usages of electricity.
7. Monitoring of new nuclear technologies.
8. Renewable energy.

ENDESA fosters and coordinates its innovation work through its corporate R&D department in close collaboration with ENEL and the business units' innovation officers, using a structured model focusing on common project selection, know-how sharing and transfer criteria, without losing sight of the regional and business peculiarities of each country.

Applications for grants, tax breaks and financial aid for these initiatives are also dealt with centrally.

In terms of internal management of innovation, an employee ideas management scheme has been introduced, known as "Eidos Market", a pioneer initiative that has sourced some 2,000 ENDESA employee ideas since its deployment. This platform leverages the latest methodologies, such as the "crowdsourcing" philosophy and "predictive markets" techniques, to garner ideas in order to maximise the overall innovation potential by taking advantage of the collective intelligence of its network of employees.

In 2013 each company arranged a number of programmes and internal and external activities focused on management of innovation and consolidating a creative innovative culture within the organisations, with communication, dissemination and training campaigns and recognition of employees for innovative suggestions. An "Innovation and Environment Week" was also arranged at all Group companies simultaneously.

As part of its open innovation model, ENDESA has decided to approach entrepreneurs community as a source of solutions for the challenges inherent to its businesses.

2013 produced a winner in the first "ENEL LAB" contest on a Euros 15 million package to promote Spanish and Italian start-ups carrying out clean technology projects. As a result, ENDESA will be sponsoring "MIRUBEE", a Spanish company operating in the energy efficiency sector.

Among the many projects carried out in 2012, we may single out those focusing on e-mobility and smart cities.

## E-mobility

ENDESA is still firmly committed to developing e-mobility, and is playing a prominent role in this field with a view to positioning itself as an international leader of the e-mobility sector.

In this context, the work undertaken has enabled technology to be developed, and agreements have now produced results. So it was that in 2013 ENDESA set up 253 recharging facilities for electric vehicles in Spain and more than 58 in Latin America, with new rapid chargers at service stations that are able to limit power output in situations of high energy demand in cities.

This recurring technology development activity successfully completed the first phase of rapid-recharge projects such as the "Crave" facility for remote-controlled rapid charging units, or "Surtidor", a conductive rapid charging facility with storage capacity, securing products that are being installed at customer premises at all levels of corporate operation.

The "Fasto" project was also completed in 2013, an initiative to define, develop, produce and validate a common rapid-charge unit catalogue at pre-commercial level, and this is now on the market. The comprehensive solution with three integrated rapid-charge systems was presented at the EVS27 Congress, and aims to meet the requirements of all business units while simultaneously creating new commercial opportunities through integration in the EMMS System (Electric Mobility Management System).

ENDESA created and spearheaded a business consortium to develop Spanish technology for dynamic-induction charging of buses, known as the "Victoria" system. The consortium was approved as part of the CDTI Industrial Technology Development Centre's "Interconnecta" investment plan. This project will build Spain's first dynamic-induction rail, and features ambitious technological and economic objectives for development of public e-mobility.

"Unplugged" is a project developed by an international consortium, which seeks to develop a rapid-charge induction facility, and conduct research on the usage of this system in urban environments, with a view to confirming and ascertaining the possibilities of the infrastructure. In 2013 ENDESA made considerable progress in the design of the facility, and will commence tests in 2014.

Another area of activity is development of Vehicle to Grid systems (V2G), and the V2M Project was successfully carried through in 2013, developing technology to roll out the system on the Zem2all Project (Zero Emissions Mobility to All), which deployed a six-charger infrastructure to provide two-directional services for commercial vehicles.

Another group of projects focuses on promoting e-mobility in real scenarios with demonstration-scale setups. This led to work on the "Green eMotion" Projects on the VII Framework Programme and "Zem2all".

The "Zem2all" Project is a demonstrational e-mobility project, deploying 22 rapid chargers, 6 V2G chargers, a control and information centre and 160 electric cars operated by businesses and individuals. It commenced its operational phase in April 2013, and to date participants are extremely satisfied with the scheme.

In 2013 the "Green eMotion" Project deployed three different types of recharge facilities, linked, rapid and V2G, in the car park for ENDESA vehicles in Barcelona, while infrastructure was rolled out in Málaga to manage demand for car parking facilities.

In Latin America, the Colombian company Codensa, S.A. E.S.P set up the first charging station for electric taxis in Bogotá, and the facility will offer a charging station for fifty electric cars approved by the local authorities. Plans have been made to install 55 charging stations at four different parking facilities, while work continues on building anti-vandal protection structures and configuring the payment system.

Also in Colombia, an agreement was signed by Codensa, S.A.E.S.P., Bogotá Town Hall and the Department of Mobility and the Environment to deploy electric buses on local "TransMilenio" routes before 2015.

In Chile, Chilectra, S.A. conducted a project to launch an electric bus service along a public transport corridor connecting the Santiago Smartcity facilities and the Metro network. The experiment sets out to prove that this technology can be applied to public transport systems in large Latin American cities.

An electric vehicle charging station went into operation in Argentina, the country's first.

### Smartcities

ENDESA is developing its "Smart Grid" concepts on its "SmartCity" programmes, which have produced a number of projects. It has now been five years since the "SmartCity" project was introduced in Málaga, while the "SmartCity" setup has been deployed over the last three years in Barcelona. In Latin America, work continued on projects in Búzios (Brazil) and Santiago de Chile, which were launched in 2012.

- Málaga "SmartCity": Phase I of the project was completed in 2013 and Phase II has now commenced, continuing activities focused on integrating "Smart Grids" and sustainable urban development under the umbrella of a new concept: the "Smart City". Work has been carried out on the development and roll-out of latest-generation distributed energy generation and storage technologies, e-mobility charging infrastructure, and cutting-edge solutions to boost the energy efficiency of buildings, businesses and homes through the active involvement of end consumers. The experiment demonstrated the viability of the new energy management model in cities, securing energy savings of more than 20%, a 20% reduction in CO<sub>2</sub> emissions, and a considerable increase in energy from renewable sources. The project was carried out in an area of the city with 12,000 household customers, 300 industrial customers and 900 customers in the services sector.
- "SmartCity" Barcelona: Work continues to develop a new energy model, rolling out and testing the latest technology for remote management of meters, system automation, efficient lighting, integration of renewable energies and e-mobility, in a raft of projects throughout the city. One of the major projects is the "Future Grid for Electric Energy Distribution" initiative to set up monitoring and control facilities at more than 1,400 transformer stations, to improve supply quality and continuity. Work also continued on development of the Solar House and its "Smart Grid Service Center" to monitor and manage the systems set up as part of Smart City Barcelona and all associated information.
- "Cidade Inteligente" Buzios: This is Latin America's first "Smart City" project in the city of Buzios, in the State of Rio de Janeiro. The main objectives of the project were to integrate "Smart Metering", grid automation, e-mobility, smart public lighting and distributed generation technologies, in order to evaluate their economic, technical and

social feasibility. The first fully automated station was set up in 2013, and communications tests were carried out for rollout.

- "SmartCity" Santiago: This was a project rolled out in the business district of Santiago de Chile to test the integration of technologies such as "smart metering", grid automation, electric vehicles, public lighting and distributed generation technologies to evaluate them from an economic, technical and social perspective. The new efficient lighting systems were fitted in 2013, and 100 "smart meters" have been installed since the project began.

## Technology platforms

In Spain, ENDESA continues to work with multiple technology platforms, including the energy efficiency technology platform, the platform for the grids of tomorrow (FUTURED) where ENDESA sits on the governing board, and the nuclear fission platform CEIDEN, where ENDESA runs the technical secretariat. The company also assists in other areas such as the Spanish CO<sub>2</sub> technology platform, the Spanish hydrogen and fuel battery technology platform, the Spanish industrial safety platform ("PLATI") and the Spanish biomass platform ("BIOPLAT").

It is also actively involved with other institutions, for example its work as founding trustee of various foundations - "IREC" (Institut de la Recerca en Energia de Catalunya), Corporación Tecnológica de Andalucía (CTA), and Spain's Royal Academy of Engineering's "Pro Rebus" Foundation.

In Latin America, the company works with Colciencias (Colombia), and has cooperation agreements with the Energy Sustainability Research Centre ("CISE") at Chile's Universidad Pontificia Católica.

## Innovation projects

Coordination of ENDESA's work teams during the year has optimised resources and identified synergies worth Euros 23 million in shared knowledge and results in various areas.

### *Occupational safety*

The Safety Synergies Innovation Committee was set up in 2013 to drive forward and speed up innovation projects to boost occupational safety and implement tried and tested technology.

- "Anti-Fall Systems for Ladders": Ladders with a fibreglass cladding with no mechanical features visible. These can be used at all locations, even with visible cabling.
- Personal voltage detection device: A device to detect electrical fields via a radio antenna.
- Protection for electricity poles: Protection to deaden impacts by cars, designed to prevent serious damage to poles and increase the safety of drivers and passengers.
- Integral safety helmet: Safety helmet with video camera, headphones and a microphone operating on a Wifi system for remote supervision, providing better communication and backing up employees carrying out hazardous tasks.

ENDESA's portfolio of innovation projects is structured around the key technology areas encompassed by strategic medium and long-term resource optimisation and value-added generation targets through the following projects:

### *Generation technology*

- Less CO<sub>2</sub>: An experimental chemical absorption facility to capture CO<sub>2</sub> through the use and evaluation of new amine-based chemical absorbents.
- "Bionatur": A project for validation of extreme desulphurisation technology and elimination of pollutants with solid sorbents on a laboratory scale, using genuine combustion gases from the Litoral thermal power plant.
- Pilot plant to capture CO<sub>2</sub> using microalgae: A pilot facility at the Litoral thermal power plant set up for the recovery of CO<sub>2</sub> from combustion gases using microalgae in order to obtain commercial products.
- "O2gen": Project to study second-generation "OxyCFB" technology with high ratios of O<sub>2</sub>/CO<sub>2</sub>, in small boilers at lower cost.
- "Capim Elefante" (elephant grass) Project: This project was carried out to create optimum conditions for the life cycle of this species of grass to improve the availability of biomass in Brazil and other South American countries.
- Cooling Lagoon Project: Conducted on land adjacent to the San Isidro power station in Chile, the project aims to assess the viability of crystalline lagoons as an alternative cooling system for thermal power plants. It involves constructing a 5,000 m<sup>2</sup> (10,000 m<sup>3</sup>) pool thermally connected to the plant's cooling system, which will be operated for four months to study technological performance.
- Tool to optimise resources, programmable on a daily basis: Development of a model to optimise the hourly programming of hydro plants, for more efficient use of water resources in Chile.
- Combustion carbon mix: Evaluation and adjustment of parameters for combustion of carbons and mixes within the area of influence of the Termozipa thermal plant in Colombia, boosting combustion efficiency and reducing the plant's environmental impact.
- "Televisi": Development of artificial vision technology to monitor and improve maintenance systems at hydro plants.
- "Intogener": Development of a system for predicting ice and snowmelt runoff using satellite data in order to improve forecasting used in the electricity system. Empresa Nacional de Electricidad, S.A. is involved as a system user during the pre-operational phase.

### *Energy efficiency and storage*

- "EnergyTic": Innovative solutions enabling customers in subsidised housing to meet their water and energy savings targets. The project will be carried out for 1,000 homes in France and 700 in Spain. ENDESA is actively involved as a technology partner on this

European project, spearheading Spanish participation for the development of remote customer management.

- "Novare Energrid": A distributed system of smart infrastructures to manage electricity supply and demand. The system enables energy consumption and production to be managed through small nodes (residences, businesses) by creating a decentralised system. It also aims to improve the energy management of buildings through dialogue among consumers, generators and users. It entered the supply stage in 2013.
- "Store": Energy storage project using storage technologies directly applied to power systems as a means of improving temporary imbalances between generation and consumption, carried out in the Canary Islands.
- "Bess": Installation at the Tarapacá thermal power plant (Chile) of an energy storage facility (6 MW/1.5 MWh) to be used by the interconnected system "Sistema Interconectado del Norte Grande" (SING) in the event of severe frequency disturbances.
- "Storage": Development of an energy storage system in Brazil with several Li-ion technologies (NMC and LFP), capacity 200 kWh, for connection to a "SmartGrid" to assess its impact on the system.
- "Electronic capacitor": A device developed in Brazil to correct low-voltage reactive energy, for residential low-consumption customers, to improve supply quality.

#### *Distribution and smart grids*

- Remote management: project to roll out an automatic remote electricity supply control and management system for domestic customers. A first in Spain, this system will be rolled out at customers' homes to replace conventional electricity meters. In 2013, 4.2 million smart meters were deployed in Spain.
- "Smartie Plus": Development of a new electronic power device to improve the use of current network assets. The device allows for maximum load distribution, thereby improving the quality of supply and enabling renewable energy to be more successfully and extensively integrated into the distribution grid.
- "Orion": This pilot project addresses smart grid technology and automation on the medium-voltage system, to improve the service for rural areas in Cundinamarca (Colombia).
- "Carson" effect: Development of a new earthing configuration for medium-voltage and low-voltage transformers to reduce terrain impedance and thus cut maintenance and operating costs.
- "Cable Cure": Regeneration technology for underground cables damaged by water ageing and meteorological phenomena, with no need for customer outages. The system can produce savings of up to 65% with respect to the traditional alternative of replacing cables.

#### *Nuclear energy*

Nuclear R+D work is carried out on a number of programmes. ENDESA acts as secretary to the Spanish nuclear fission technology platform, CEIDEN, which coordinates the sector's



R+D+i work. Also, through Spanish electric utilities business association UNESA's nuclear power committee, ENDESA promotes research work in connection with its nuclear plants. The following are some of the main programmes:

- The EPRI nuclear programme, seeking operating excellence at nuclear plants.
- A coordinated research programme ("PCI"), conducted along with other companies in the sector and the Spanish Nuclear Safety Council ("CSN"). The programme performs an analysis of safety at nuclear plants from the point of view of both operators and the nuclear regulator.
- A joint coordinated research programme run by electric utilities and Empresa Nacional del Uranio, S.A., which coordinates R+D+i activities in connection with nuclear fuel and defines common-interest projects.

## **8.2. Environmental protection**

Sustainable development is one of the cornerstones of ENDESA's business strategy, and environmental protection is one of the company's top priorities. This commitment clearly distinguishes ENDESA from other companies, as it constitutes a basic ethical principle expressly stated in its corporate values.

Through this commitment, ENDESA aims to minimise the impact of its industrial activities on their surroundings. It encompasses initiatives primarily related to combating climate change, exemplary management of waste, emissions, spillages, polluted soil and other potentially harmful impacts.

ENDESA's environmental management is aimed at minimising its consumption of natural resources and preserving biodiversity in the areas where it operates.

Evaluation of the environmental risks inherent to the company's activities and environmental certifications obtained from third-party agents help ensure excellence in the company's environmental management, which is fully integrated and aligned with its corporate strategy.

The Group's commitment to respecting and safeguarding the environment directly influences senior management's decision-making processes. The environment is one of the primary strategies of ENDESA's 2008-2012 Sustainability Plan, which has now been extended for a further year to 2013 pending consensus and preparation of the ENEL Group's new Sustainability Plan. The 2008-2012 Plan, which gives a major boost to ENDESA's traditional commitment to protecting nature, creates a solid front against climate change and seeks excellence in management of other environmental issues.

ENDESA's environmental investment and outlays in 2013 and 2012 were as follows:

Millions of Euros

<b>Annual environmental investment</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Business in Spain and Portugal	30	36	(16.6)
Business in Latin America	56	34	64.7
<b>TOTAL</b>	<b>86</b>	<b>70</b>	<b>22.9</b>

Millions of Euros

<b>Cumulative environmental investment</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Business in Spain and Portugal	1,311	1,2833	2.2
Business in Latin America	69	42	64.3
<b>TOTAL</b>	<b>1,380</b>	<b>1,325</b>	<b>4.2</b>

Millions of Euros

<b>Annual environmental expenditure</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Business in Spain and Portugal	126	140	(10.0)
Business in Latin America	4	2	100
<b>TOTAL <sup>(1)</sup></b>	<b>130</b>	<b>142</b>	<b>(8.5)</b>

<sup>(1)</sup> Of expenditure on issues relating to environmental activities, Euros 53 million in 2013 and Euros 49 million in 2012 were accounted for by amortisation and depreciation charges.

## Spain and Portugal

Aspects such as comprehensive water management, identification and monitoring of environmental risks and liabilities, efficient environmental management (optimum use of resources and minimisation of environmental ramifications), combating climate change and, most particularly, boosting biodiversity, are the cornerstones of ENDESA's environmental policy.

### *Management of environmental excellence*

Management of environmental excellence is one of the three main focuses of the Environmental Plan, and includes comprehensive water management, management and certification systems, management of environmental risks and liabilities and management of emissions regulation. The following initiatives were carried out in 2013:

- With regard to comprehensive water management, for the fourth year running ENDESA has worked on the CDP Water Disclosure Project, an initiative involving 180 large companies in 2013 that analyses major corporate risks and opportunities in connection with water availability, and corporate developments in terms of management of the risk involved.
- In connection with environmental management systems in Spain and Portugal, all ENDESA's ISO 14001 environmental management certifications have been maintained in all areas of business in both countries. In 2013 the European Regulation EMAS was deployed at the Jinámar thermal plant and the El Palmar diesel plant, and the Besós combined-cycle plant was also registered. By year-end 2013, 97.23% of the installed power capacity had been certified to ISO 14001, as had all port terminals, mineworks and distribution facilities. The Integrated Environment, Energy and Indoor Environmental Quality System (SIGAEC), operational at head office since 2011, was extended in 2013 to a further 18 buildings in

Spain. The Tahaddart combined-cycle thermal power plant in Morocco also maintained its ISO 14001 environmental certification in 2013.

- In connection with risk management, deployment of the global project "MAPEC – Mapping of Environmental Compliance" has now been completed. This uses an in-house methodology for self-assessment of compliance with environmental regulations and the environmental performances of facilities. The results indicated that environmental risks were low at all facilities in Spain and Portugal in 2013.
- In terms of management of emissions in Spain and Portugal, ENDESA operates the National Emissions Reduction Plan 2008-2015 ("PNRE") for Large Combustion Facilities (GIC). As part of the Plan, ENDESA has carried out major projects at its facilities to reduce atmospheric emissions, and in comparison to the year 2008 it secured a 30% reduction in emissions of sulphur dioxide (SO<sub>2</sub>), a 51% reduction in emissions of nitrogen oxide (NO<sub>x</sub>), and a 47% reduction of particles for large combustion facilities operating the National Emissions Reduction Plan ("PNRE").

### *Climate change*

Combating climate change is one of the main focuses of the 2008-2012 Sustainability Plan, and more specifically of its Climate Change Plan, which encompasses five strategic areas addressing renewable energies, technology development, energy efficiency, sustainable transport and Clean Development Mechanisms (CDMs) and Joint Action (JA).

ENDESA has consolidated its inventory of greenhouse gas emissions, including the entire life cycle of each of the Company's components, areas of business and locations, and takes account of both direct and indirect emissions which, though they are not generated by sources controlled by the Company, are the outcome of its activities. In 2013 the Spanish certification body AENOR declared the 2009-2011 Carbon Footprint and the 2012 Carbon Footprint compliant with UNE ISO 14.064.

ENDESA continued to pursue its 2010-2014 Global Energy Efficiency Plan ("PGE3"), focusing on three areas: efficiency of infrastructures and active management of energy consumption, upgrading of activities carried out in this field, and awareness training for employees in responsible consumption habits.

ENDESA also has a solid commitment to e-mobility initiatives in its markets, and in this regard it leads standardisation and normalisation work groups, carries out R+D+i projects and produces in-house technology solutions.

Clean Development Mechanisms (CDMs) are addressed by ENEL's International Carbon Strategy Unit. At 31 December 2013 the portfolio of certified emission reductions (CERs) and emission reduction units (ERUs) contained almost CDM projects, with reductions of approximately 166 million tonnes of carbon dioxide ("CO<sub>2</sub>"), and at year-end it held 7% of the credits granted by the United Nations.

In 2013 ENDESA's flexible mechanisms prevented the emission of more than 8 million tonnes of CO<sub>2</sub> which, in conjunction with reductions achieved in previous years, accounted for almost 66 million tonnes of CO<sub>2</sub>.

ENDESA completed another year on the internationally renowned CDP climate change index, and was ranked as the fourth electrical utility on its Global Report 500 with a score of 98%. ENDESA's

major progress on the index was thanks to its implementation and consolidation of climate change mechanisms, a commitment stepped up through its 2008-2012 Sustainability Plan.

### *Conservation of biodiversity*

ENDESA's current Biodiversity Conservation Plan, which forms part of the third major area of its Environmental Plan, has now consolidated the Company's long trajectory in this direction. The structure of the Plan was drawn up in 2012 and in 2013 a start was made on putting it into practice, attaining a high level of efficiency and considerable success with the first milestones of the project.

ENDESA's Biodiversity Conservation Plan ushers in a structure for the selection and assessment on scientific, corporate and applied criteria of all initiatives collected internally and externally for the conservation of biodiversity. Each initiative is then defined and classified for the Plan, and is placed in a database to be monitored until the project has been completed.

In 2013, 31 biodiversity conservation initiatives were carried out on the Plan - 18 of these were new projects, and the remaining 13 projects were continuations from previous years. 7 initiatives were completed, and the other 24 will continue in 2014. A breakdown into areas of activity produces a total of 10 projects in relation to protection of birdlife, 16 in relation to water ecosystems (4 focusing on a study of invasive exotic species), and 5 projects on habitats and territorial usages.

### **Latin America**

#### *Excellence in environmental management and climate change*

The main projects carried out in 2013 in this regard were as follows:

- Chile: Information was collated in 2013 for surveys on how to reduce water consumption. As part of the Cooperation Agreement between Empresa Nacional de Electricidad, S.A. and "Crystal Lagoons", a pilot test was conducted in 2013 at the San Isidro power plant to create a closed cooling circuit. The Action Plan has been closely monitored to ensure compliance with emission thresholds, both in terms of requisites for environmental permits and the emission regulations applicable. In 2013 work began on a new system for the abatement of particles in suspension at the Tarapacá thermal power plant. In a bid to comply with the emissions regulations for power plants, Empresa Nacional de Electricidad S.A. installed new modern continuous emission monitoring systems ("CEMS") in the stacks of power plants at Taltal, San Isidro, San Isidro II, Bocamina and Quintero. Chilectra, S.A. and Empresa Nacional de Electricidad S.A. both performed environmental self-assessments in 2013. Of Chile's 29 generating facilities, 28 produced successful audits monitoring or recertifying their environmental management systems based on ISO 14001. Certification of the Bocamina plant's Unit 2 has been scheduled for 2015. At 31 December 2013, 94.4% of Chile's installed power capacity operated an environmental management system certified to ISO 14001. Chilectra S.A. is also certified to ISO 14001.
- Colombia: Codensa, S.A. E.S.P. identified 39.5 tonnes of polychlorobipheniles (transformer oils) in 2013, and 118.4 tonnes had been registered for elimination, thereby meeting national and international regulations for this type of waste. Moreover, 306 operational units highly likely to contain polychlorobipheniles were withdrawn on the Equipment Replacement Programme, and were replaced with the same number of units with no traces of this substance. The pilot project for scrubbing or decontaminating equipment containing

polychlorobipheniles (PCBs) will also help reduce the costs of eliminating the substance by approximately 60%. An environmental inspection programme was carried out at warehouses run by the associates of Codensa, S.A. E.S.P. to ascertain permanent compliance with environmental legislation and the voluntary environmental commitments of the facilities.

### *Conservation of biodiversity*

- Chile: The Biodiversity Programme includes management at the San Ignacio del Huinay Foundation pursuant to the cooperation agreement signed up in 2011 with Spain's Higher Scientific Research Council ("CSIC") and the ENDESA Foundation in Spain, to carry out research projects conducting a survey of biodiversity in Chile's Patagonian Fjord Region. Major conservation projects by the Foundation are as follows:
  - Protected marine life area at the "Comau Fjord": plans have been made to apply to the Ministry of the Environment to declare the "Comau Fjord" a protected multi-purpose marine life area to guarantee sustainable development.
  - Ecological restoration project in the Huinay forests.
  - Support for the local community: instrumented through assistance to transfer fjord colonists to the nearest inhabited area, supply of electricity to Huinay, Internet for the local school and medical care for colonists.
- Colombia: As part of the Biodiversity Programme, work continued on the implementation and development of projects at various facilities - characterisation of birdlife at the Muña reservoir, for instance, or management and recovery of the ENDESA Forest. The ENDESA Forest Project initiative sets out to protect and restore 690 hectares of higher Andes forest to create an environmental conservation area around towns in the lower basin of the Bogotá River. The following projects were carried out in 2013: construction of paths, characterisation of forest fauna, and tree-planting in degraded areas.
- Peru: Edegel, S.A.A. began work on characterisation of biodiversity in the area affected by operations of the Chimay hydro plant in 2010, and the project was completed in August 2013. A certain amount of additional forestry work was carried out, also financed by Edegel, S.A.A. Empresa Eléctrica del Piura, S.A. pursued maintenance work on forested areas. The expected benefits are mitigation of the impact of combustion gas emissions, biological stability of embankments, and control of soil erosion.

## 9. Human resources

### ENDESA employees

At 31 December 2013 ENDESA had a total of 22,995 employees, 0.8% more than in 2012. By geographic areas, 48.5% work in Spain and Portugal, and 51.5% in Latin America.

Number of employees

<b>Final headcount</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Business in Spain and Portugal	11,145	11,506	(3.1)
Business in Latin America	11,850	11,301	4.9
<b>TOTAL</b>	<b>22,995</b>	<b>22,807</b>	<b>0.8</b>

ENDESA's average workforce in 2013 was 22,890 employees: 11,316 in Spain and Portugal, and 11,574 in Latin America. By sexes, at 31 December 2013 78.9% of ENDESA's workforce were male, and the remaining 21.1% were female.

Information on ENDESA's workforce is provided in Note 40 to the consolidated financial statements.

### Occupational health and safety

ENDESA's commitment to health and safety and its "Zero Accident" target entails continuous development of awareness of hazards, training, internal and external communication and knowledge transfer through a range of initiatives.

Part of the scheme is the ENEL Group's global "One Safety" Project, with two major objectives: consolidation of safety leadership by Company management, and promotion of safe practices among employees and contractors.

The downward trend observed in recent years in occupational safety and health indicators continued in 2013. The combined frequency index (Endesa employees and other contractors) fell by 16% (from 2.90 to 2.43), and the combined seriousness index also fell by 17% (from 0.12 to 0.10). The total number of serious and fatal accidents fell by 13% (from 23 to 20).

### Leadership and personal development

ENDESA constantly strives to identify and develop the potential of its employees, so that their performance can help make the Company a benchmark within the sector. In this regard, its Leadership Model, Management Model, Performance Management System and Global Professional System guarantee personal development on the basis of merit and ability.

The Leadership Model consists of the patterns of behaviour that ENDESA expects of all employees, and the Company gives them references to enable them to work in a coherent fashion to make a contribution to corporate leadership. These patterns are composed of seven factors that are geared towards continuous improvement and encourage change and innovation, with priority to occupational safety.

In 2013 the Management Model continued its development towards what is known as the "ENEL Global Banding System", which includes key technical and professional posts at the Company, in addition to managerial positions.

In 2013, 70% of employees received a regular appraisal of their professional performance and development through one of the Company's assessment systems (60% in 2012). ENDESA has also provided employees with a number of professional development tools, such as individual development interviews, coaching or mentoring.

The design of the Global Professional System (GPS) was completed in 2013 - the system aims to define professional profiles in accordance with technical skills. It provides knowledge of technical skills for all work stations, which is used to assess training needs and/or development opportunities for employees in these posts.

## **Training**

Training is planned and designed in accordance with the guidelines of ENDESA's Strategic Plan, the ultimate goal of which is to assist in development of the knowledge and skills required by employees to achieve their objectives and genuinely implement the corporate strategy.

With regard to these goals, in 2013 priority was given to occupational safety and health with the deployment of a single global culture focusing on strategy, and promotion of development with technical capacities.

In 2013, 965,565 hours of training were provided for 82% of employees, an average of almost 42 hours per employee (as against 985,789 hours of training in 2012, with an average of 43 hours per employee). The hours of training mainly focused on the following aspects: Skills (31%), Business (29%), Occupational safety and health (16%), Staff (16%) and Leadership (3%).

In 2013 ENDESA's training units became part of the corporate entity "ENEL University", and a number of international initiatives were consolidated at ENDESA in a bid to globalise the offer of training and generate economies of scale and efficiency.

The main training programmes in 2013 were as follows:

- GOAL (Global One & Aligned) Managerial Training: a programme devised for all managers to encourage a global culture that focuses on strategy, but is also mindful of and enriched by diversity.
- Junior Energy Training (JET): a programme targeting new staff, to disseminate patterns of behaviour and corporate values.

## **Attracting and retaining talent**

In a bid to attract the best possible talent, ENDESA deploys Employer Branding to make the Company an attractive work option in all markets in which it operates, gearing efforts in the direction of the profiles most sought after. To this end, in 2013 it involved itself in virtual and location job fairs, and worked with a number of institutions to boost the traineeship and internship plan.



Whenever possible, ENDESA avails itself of internal promotion to fill its vacancies, giving priority to professionals with an excellent performance record.

ENDESA took on 1,373 employees in 2013, of which 1,168 at its Latin American subsidiaries (96% were local employees). The Company took on 1,353 employees in 2012, of which 96% were local. 68% of the new employees were for Latin American subsidiaries.

### **Responsible personnel management**

To move forward in terms of responsible personnel management, ENDESA has a Human Resources Corporate Social Responsibility Plan, known as "Senda".

The Plan sets a number of annual targets in various areas: diversity and equal opportunities, employment flexibility and reconciliation, integration of persons afflicted by disabilities and social exclusion, promotion of voluntary projects and social responsible investment.

With regard to diversity and equal opportunities, ENDESA also maintains a solid commitment to the principles of gender equality and non-discrimination, striving to become a company that respects and manages differences between people, and ensures all employees are treated equally and have the same opportunities.

Targets were set in 2013 to increase the percentage of female employees. The results of external hiring in Spain were 39% (34% in 2012), and in Latin America the best results were obtained in Colombia, with 31%, and in Brazil, with 28% (37% and 32% respectively in 2012).

### **Employment climate**

The Climate and Safety Survey was launched in November 2012 simultaneously for all employees, and participation at ENDESA was 76%, with a level of commitment of 74%.

1,467 initiatives were devised in 2013 to single out areas of strength and use them as levers to boost the areas for improvement identified. These courses of action will be operative until November 2014, whereupon a new Climate Survey will be launched.

### **Social dialogue**

In Spain and Portugal there were five collective labour agreements in operation at the end of 2013 affecting 10,724 employees, 92% of the workforce.

The major negotiations conducted in 2013 were ENDESA's IV Collective Framework Agreement, extension of the "Guarantees Framework Agreement" and an agreement on voluntary measures for suspension and cancellation of employment contracts, signed in December.

The new employment framework focuses on three areas, flexibility, productivity and competitiveness, to ensure that corporate targets are met and that Company employment conditions are observed. With respect to employment flexibility, professional categorisations were simplified, a new functional mobility regulation was applied, geographic mobility was regulated in a homogenous fashion, and pay increases were introduced on efficiency criteria, in accordance with the economic context and partially linked to productivity. In terms of competitiveness, the pay policies described are also linked to business results.



The present Guarantees Agreement was extended to 31 December 2018, and establishes the creation of a mechanism whereby the company may offer voluntary departures with indemnifications or suspensions of the employment contracts of employees with no effective tasks.

There are 46 collective agreements in Latin America - 8 in Argentina, 15 in Brazil, 13 in Chile, 4 in Colombia, 5 in Peru and one which, although it was arranged in Spain, affects the parent unit in Latin America. These agreements regulate the working conditions of 9,731 employees, 82.4% of the workforce.

14 collective agreements were signed in 2013: 8 in Brazil, 2 in Chile and 4 in Peru.

## 10. Treasury shares

ENDESA did not hold any treasury shares at 31 December 2013, nor did it trade in treasury shares in 2013.

## 11. Other information

### 11.1. Stock market information

The ENDESA price listing on the Madrid stock market and major indexes in 2013 and 2012 was as follows:

Share price trend with respect to the previous year (%)	2013	2012
<b>ENDESA, S.A.</b>	<b>38%</b>	<b>6%</b>
Ibex-35	21%	(5%)
Eurostoxx 50	18%	14%
Eurostoxx Utilities	9%	(9%)

Better macroeconomic conditions and prospects, chiefly among developed nations, coupled with monetary stimuli by the main central banks, were the reasons for a better performance by stock markets in 2013.

In Europe, Spain's Ibex-35 index performed well after three consecutive years of losses, and finished the year at +21%, second only to the German stock market, which moved up by 26%. The Paris stock market lay slightly behind, with +18%, Milan with +17%, and the London stock exchange with +14%. The pan-European Eurostoxx 50 index also closed the year with an increase of 18%, an indication of renewed confidence in Eurozone stability.

2013 was also an extremely positive year for non-European stock markets, with the exception of Latin America. Japan's Nikkei market finished the year with an increase of 57%, its best performance in 40 years, while the Nasdaq, S&P 500 and Dow Jones indexes in the United States notched up respective increases of 38%, 30% and 26%, following a large number of record highs.

In Spain, investors were optimistic at the first signs of an improvement in the economy, with Gross Domestic Product (GDP) just positive in the third quarter of the year (+0.1%), and its result in a major reduction of the country's risk premium, at its lowest since 2011 at year-

end. Spread against German Bund fell by more than 170 basis points as of January, and finished the year at 220 basis points, thus confirming the change of perception of Spanish markets, as forecasts by various official bodies declared that Spain's economy could well continue its growth in 2014.

Despite a year of difficulties and sluggishness, and weak fundamentals such as a fall in demand, regulatory risk and doubts as to the electricity model, among other setbacks, Europe's electricity sector still managed to notch up stock market appreciations. The Dow Jones Eurostoxx Utilities sectoral index moved up by 9%. The only exception to a general rise among Europe's electricity utilities was in Germany (E.On: -5% and RWE: -15%).

The sectoral trend in Spain was affected by new taxes on electricity output as of 1 January 2013 through Law 15/2012 of 27 December, and the objective of dealing with the structural problem of the tariff deficit, addressed in Royal Decree Law 9/2013 of 12 July as an initial instalment of the full energy reform introduced by the regulator in the latter half of the year, now being implemented by a new Electricity Law and a number of Royal Decrees and Ministerial Orders.

A positive aspect of the year 2013 was completion of the process of securitisation of collection rights in relation to the tariff deficit held on the balance sheets of utilities through the Deficit Securitisation Fund for the Electricity System (FADE), a system devised for this purpose.

In this context ENDESA, which, like Spain's equity income in general, had been afflicted by prices affected by extensive risk aversion at the beginning of the year, pulled off a fine stock market performance to take up a leading position within the sector. The share price listing climbed 38% to finish 2013 at Euros 23.30, its highest during the year. This represented an increase of 46% on the minimum price of Euros 15.86 per share recorded at close of business on 17 July 2013.

The mid-December announcement that ENDESA would again be paying an interim dividend on its 2013 results brought an extremely positive end to the stock market year.

<b>Stock market data</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>% change</b>
Market cap (Millions of Euros)	24,669	17,861	38.1
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Nominal share value (Euros)	1,2	1,2	-
Cash (Thousands of Euros)	2,383,758	2,349,966	1.4
Madrid stock exchange (Shares)			
Trading volume	128,023,145	163,073,796	(21.5)
Average daily trading volume	502,052	637,007	(21.2)
P.E.R. (1)	13.1	8.8	

(1) Closing price / Earnings per share.

<b>Share price (Euros)</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
Maximum	23.68	17.67	34.0
Minimum	15.86	11.63	36.4
Average in the year	18.35	14.66	25.2
Closing price	23.30	16.87	38.1

In due consideration of ENDESA's liquidity, at a meeting on 16 December 2013, the Ibx-35 Technical Advisory Committee decided to exclude its shares from the index as of 23 December

2013. ENDESA had hitherto been listed on the Ibex-35 index with a market cap coefficient of 10% due to its free float of 7.94%.

## 11.2. Dividend policy

In February 2013 the ENDESA Board decided to suspend the dividend on 2012 results as a measure of prudence in view of the uncertain regulatory situation within the sector, and the considerable tariff deficit pending securitisation at that time due to difficult market conditions.

The measure, proposed by the Board and approved at the General Meeting of Shareholders on 22 April 2013, was intended to boost the company's financial position against the management complications of the scenario in economic, energy and regulatory terms.

Looking ahead to 2014, at a meeting on 17 December 2013 the ENDESA Board took the decision to distribute an interim shareholder dividend against the results of 2013, in the gross amount of Euros 1.5 per share. The dividend entailed a disbursement of Euros 1,588 million, and was paid out on 2 January 2014.

The provisional statement of accounts, drawn up in accordance with the legal requirements of Article 277 of the Spanish Corporate Enterprises Law ("Ley de Sociedades de Capital") and demonstrating sufficient liquidity for payment of the dividend, was as follows:

Millions of Euros

<b>Provisional liquidity statement</b>	<b>From 1 December 2013 to 30 November 2014</b>
<b>Opening available balance</b>	<b>6,732</b>
Cash in hand and at banks	33
Undrawn loans	6,699
<b>Increases in cash</b>	<b>4,305</b>
Ordinary activities	2,453
Financial transactions	1,852
<b>Decreases in cash</b>	<b>(827)</b>
Ordinary activities	(342)
Financial transactions	(485)
<b>Closing available balance</b>	<b>10,210</b>
<b>Proposed interim dividend on 2013 results</b>	<b>1,588</b>

<b>Dividends (Euros/share)</b>	<b>Against 2013 results <sup>(1)</sup></b>
Interim <sup>(2 January 2014)</sup>	1.500
Final <sup>(2)</sup>	-
Total dividend per share <sup>(2)</sup>	1.500
Pay-out (%) <sup>(3)</sup>	84.5
Dividend yield (%) <sup>(4)</sup>	6.4

<sup>(1)</sup> The company allocated all results for the year to retained earnings against 2012 results.

<sup>(2)</sup> Pending approval by the General Meeting.

<sup>(3)</sup> Total gross dividend / net result by parent.

<sup>(4)</sup> Gross dividend per share / listing at 31 December.

In due consideration of the exceptional situation of the Spanish economy in general and of the electricity sector in particular, with continuous changes to regulations with a major impact on Company results and profitability, ENDESA has not defined a dividend policy because decisions concerning dividends are taken at the General Meeting following proposals by the

Board on a year-by-year basis in accordance with factors such as the economic situation, developments in electricity regulations, the financial position of the Company and the strategic plans defined.

## **12. Annual Corporate Governance Report as required under Article 538 of Royal Legislative Decree 1/2010 of 2 July enacting the consolidated text of the Spanish Corporate Enterprises Act ("Ley de Sociedades de Capital")**

The 2013 Annual Corporate Governance Report is attached as an appendix and forms an integral part of this Consolidated Management Report, as required under Article 538 of Royal Legislative Decree 1/2010 of 2 July enacting the consolidated text of the Spanish Corporate Enterprises Act.

## **13. Proposed distribution of profit**

The profit reported in 2013 by the parent company, ENDESA, S.A., was Euros 1,935,401,324.71 which, in addition to retained earnings of Euros 2,807,082,213.31, produces a total of Euros 4,742,483,538.02.

The proposal to the General Shareholders' Meeting by the Company's Board of Directors was to use this amount to pay shareholders with dividend rights a dividend payment of Euros 1.5 per share, with the rest added to retained earnings.

	<b>Euros</b>
As dividend (maximum amount to be distributed based on Euros 1.5/share gross for all shares (1,058,752,117 shares).	1,588,128,175.50
Retained earnings	3,154,355,362.52
<b>TOTAL</b>	<b>4,742,483,538.02</b>

24 February 2014

## **APPENDIX I**

# **Annual Corporate Governance Report**