



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

**Consolidated Management Report  
for the six-month period ended  
30 June 2014**

Madrid, 30 July 2014

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



# **CONSOLIDATED MANAGEMENT REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014**

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# Analysis for the Period

## Consolidated Results

### **ENDESA reported net income of Euros 765 million in the first half of 2014.**

ENDESA's net income totalled Euros 765 million in the first half of 2014, down 31.3% on the same period of the prior year, due to the Euros 144 million reduction in net profit from the Spain and Portugal business and the Euros 205 million decrease in the Latin America business.

The decrease in net profit from the Spain and Portugal business is due to the estimated impact of the revenues from non-mainland generation activity calculated in accordance with the proposed Royal Decree regulating the production of electricity and the procedure for dispatching power in non-mainland electricity systems received for observations in July 2014. This draft is implemented retroactively as of 1 January 2012 for the remuneration of non-mainland generation, with an impact of Euros 259 million for 2012 and 2013 when compared to the previous framework. Euros 97 million of this amount were already provisioned in 2013, based on a previous draft in 2013. Therefore, the income statement for the first half of 2014 includes Euros 162 million as a result of restating the remuneration of non-mainland generation in 2012 and 2013 while the negative impact on net income amounts to Euros 114 million.

The drop in net profit from the Latin America business is due to various factors:

- The adverse impact of the strong currency devaluation in the Latin American countries in which ENDESA operates, which caused earnings in local currency to lose magnitude when translated to euros.
- The recognition in the first half of 2013 of the exceptional impact of Resolution 250/2013 issued by Argentina's Energy Secretary, whereby Empresa Distribuidora Sur, S.A. recognised the income from the compensation for cost variations not transferred to the tariff between 2007 and February 2013 in relation to the amounts to be applied under the Cost Controlling Mechanism (MMC) adjustment for a total of Euros 344 million. This positively impacted net income by Euros 97 million.
- The drop of the results in the Chilean generation business due to adverse rainfall conditions coupled with the stoppage at the Bocamina II power station.
- The decrease in financial assets due to the amount to be recovered by Brazilian distributors for the reversal of assets at the end of the concession as a result of restating this amount according to the new information arising from the tariff review carried out by the Brazilian regulator for Ampla Energia e Serviços, S.A. in the second half of 2014. This reduction amounted to Euros 110 million with an impact of Euros 39 million on net profit.

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

Millions of Euros

<b>ENDESA net income</b>	<b>January-June 2014</b>	<b>% change 1H2013</b>	<b>% of total net income</b>
Spain and Portugal	579	(19.9)	75.7
Latin America	186	(52.4)	24.3
<b>TOTAL</b>	<b>765</b>	<b>(31.3)</b>	<b>100.0</b>

## Comparative information

The comparative information for 2013 used in this consolidated management report was restated with regard to that published at the time as a result of the application of IFRS 11 "Joint Arrangements", as explained in Note 2.1 of the interim summarized consolidated financial statements for the six-month period ended 30 June 2014.

The impact of the application of IFRS 11 "Joint Arrangement" on the consolidated financial statements for 2013, which are presented for comparison purposes, is detailed in Appendix II, Effect of the restatement of the 2013 consolidated financial statements upon application of IFRS 11 "Joint Arrangements".

## Electricity generation and sales

ENDESA's electricity generation in the first half of 2014 amounted to 60,388 GWh, down 0.3% on the same period of 2013, whereas electricity sales climbed 1.2% to 78,369 GWh.

The differences between the two geographical segments in which ENDESA operates are detailed below:

GWh

	<b>Output</b>		<b>Sales</b>	
	<b>January-June 2014</b>	<b>% change 1H2013</b>	<b>January-June 2014</b>	<b>% change 1H2013</b>
Spain and Portugal	31,978	0.4	47,086	(0.9)
Latin America	28,410	(1.0)	31,283	4.4
<b>TOTAL</b>	<b>60,388</b>	<b>(0.3)</b>	<b>78,369</b>	<b>1.2</b>

## EBITDA: Euros 2,911 million

EBITDA in the first half of 2014 decreased 17.7% to Euros 2,911 million.

In the period from January to June 2014, EBITDA dropped in both the Spain and Portugal business, down 6.4% to Euros 1,694 million, and the Latin America business, down 29.6% to Euros 1,217 million.

The decrease in EBITDA in the Spain and Portugal business is due to the decline in contribution margin, which dropped Euros 225 million as a result of recognising Euros 162 million relating to the additional impact of the retroactive effect on the remuneration of non-mainland generation since January 1<sup>st</sup> 2012 as a result of the new Royal Decree draft, as explained at the beginning of this consolidated management report, as well as the impact on the first half of 2014 of the new regulatory measures that entered into force subsequent to the first half of 2013 amounting to Euros 253 million. These adverse regulatory impacts were partially offset, under certain circumstances, by the lower variable costs incurred due to lower wholesale market prices during this period.

The drop in contribution margin in this business was partially offset by a Euros 90 million remarkable reduction in fixed costs (-8.1%), bringing the total reduction in EBITDA for the Spain and Portugal business to -6.4%, as mentioned above.

With regard to the Latin America business, the Euros 512 million decrease in EBITDA was primarily the result of the following factors:

- Exchange rate fluctuations in the Latin American currencies in which ENDESA operates, giving rise to exchange losses of Euros 173 million compared to the first half of 2013.
- The recognition in the first half of 2013 of the exceptional impact of Resolution 250/2013 issued by Argentina's Energy Secretary, whereby Empresa Distribuidora Sur, S.A. recognised the income from the compensation for cost variations not transferred to the tariff between 2007 and February 2013 in relation to the amounts to be applied under the Cost Controlling Mechanism (MMC) adjustment for a total of Euros 301 million.

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

Millions of Euros

	Revenue		EBITDA		EBIT	
	January-June 2014	% change 1H2013	January-June 2014	% change 1H2013	January-June 2014	% change 1H2013
Spain and Portugal	10,253	(4.2)	1,694	(6.4)	965	2.1
Latin America	4,458	(11.9)	1,217	(29.6)	892	(35.0)
<b>TOTAL</b>	<b>14,711</b>	<b>(6.7)</b>	<b>2,911</b>	<b>(17.7)</b>	<b>1,857</b>	<b>(19.9)</b>

### Net profit (loss) of companies accounted for using the equity method

In the first half of 2014, companies accounted for using the equity method contributed a net loss of Euros 15 million, compared to the net profit of Euros 48 million in the first half of 2013.

Due to the lack of economic viability of Elcogas, S.A., in which ENDESA holds a 40.99% interest, following application of the measures set out in the Royal Decree governing the mechanism to guarantee the output from certain power plants that use Spanish coal, for reasons of supply security, the company decided to discontinue its activities at the end of 2014. The net loss of companies accounted for using the equity method includes a provision amounting to Euros 50 million to cover the estimated cost for ENDESA to discontinue this company's activity.

### **Net financial loss: Euros 324 million**

The net financial loss for the first half of 2014 amounted to Euros 324 million, which represents an increase of Euros 152 million.

Euros 47 million of this amount relate to net exchange losses as a result of the effect on liabilities in dollars from the currency devaluation in the Latin American countries with this currency, mainly due to the debt in dollars of Argentinean companies. Net exchange losses in the first half of 2013 were only Euros 4 million.

Net finance costs amounted to Euros 277 million, an increase of Euros 109 million with regard to the same period of the previous year. In order to analyse these changes, the following extraordinary events should be taken into account:

- The recognition in the first half of 2014 of Euros 110 million in finance costs as a result of restating the financial asset included in the estimate of the amount to be recovered at the end of the concession period by Brazilian distributors, taking into account the restatement of the new asset base resulting from the tariff review of Ampla Energia e Serviços, S.A.
- The recognition by the Argentinean government of the Cost Controlling Mechanism (MMC) from 2007 to February 2013 generated finance income of Euros 43 million in the first half of 2013. Accordingly, financial expenses for the first half of 2014 included an income of Euros 6 million due to the recognition of the Cost Controlling Mechanism (MMC) for the period from October 2013 to March 2014.

Excluding these two non-recurring effects, net finance costs would have dropped by Euros 38 million, as a result of the reduction in average debt over both periods.

### **Cash flow from operating activities: Euros 1,966 million**

Cash flow from operating activities in the first half of 2014 totalled Euros 1,966 million compared to Euros 1,505 million generated in the same period of 2013. This change was primarily due to improved working capital.

### **Gross investment: Euros 1,049 million**

ENDESA's gross investments totalled Euros 1,049 million in the first half of 2014 (Euros 907 million in the first half of 2013). Of this amount, Euros 881 million relate to CapEx and investments in intangible assets and Euros 168 million relate

to financial investments (Euros 813 million and Euros 94 million, respectively, in the first half of 2013).

Millions of Euros

<b>Gross investment</b>				
	<b>CapEx and intangible assets</b>	<b>Financial investments</b>	<b>TOTAL</b>	<b>% change</b>
Spain and Portugal	333	82	415	28.9
Latin America	548	86	634	8.2
<b>TOTAL (1)</b>	<b>881</b>	<b>168</b>	<b>1,049</b>	<b>15.6</b>

(1) Excluding carbon dioxide (CO<sub>2</sub>) emission allowances, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs).

Additionally, during the first half of 2014 there have been acquisitions of shares in consolidated companies amounting to 408 million euros, which relate to the acquisition of an additional 50% of Inversiones GasAtacama Holding, Ltd. (Euros 227 million) and to the acquisition of 15.18% of Companhia Energética do Ceará, S.A. (Euros 181 million).

## Financial position

At 30 June 2014, ENDESA had a net financial debt of Euros 4,550 million, only Euros 213 million higher than the figure at 31 December 2013, despite the payment of an interim dividend of Euros 1,588 million on 2 January 2014.

The table below shows the structure of net financial debt, by businesses, at 30 June 2014:

Millions of Euros

<b>Breakdown of ENDESA'S net financial debt by business line (1)</b>				
	<b>30 June 2014</b>	<b>31 December 2013</b>	<b>Difference</b>	<b>% change</b>
Business in Spain and Portugal	1,147	1,435	(288)	(20.1)
Business in Latin America	3,403	2,902	501	17.3
Enersis	3,350	2,706	644	23.8
Other	53	196	(143)	(73.0)
<b>TOTAL</b>	<b>4,550</b>	<b>4,337</b>	<b>213</b>	<b>4.9</b>
<b>Leverage (%) (2)</b>	<b>16.72</b>	<b>16.21</b>	<b>-</b>	<b>-</b>

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

(2) Net financial debt / Equity

When analysing ENDESA's level of debt, it is important to take into account the following at 30 June 2014:

- ENDESA had an accumulated collection right of Euros 2,121 million in connection with several items recognised in regulations governing the Spanish electricity industry: Euros 1,400 million for financing the shortfall in revenue from regulated activities prior to 31 December 2013, Euros 238 million for the shortfall generated



in the first half of 2014 due to transitory imbalances in accordance with the application of the new deficit financing mechanism established in Law 24/2013, of 26 December, and Euros 483 million related with the compensation to generate electricity in non-mainland systems.

- At 30 June 2014, ENDESA had placed Euros 397 million in financial instruments maturing at over three months. These were not included under "Cash and cash equivalents" and, therefore, were not netted from the financial debt figure.

Excluding the items indicated above, ENDESA's net debt at 31 June 2014 was Euros 2,032 million.

The table below shows the structure of net financial debt:

Millions of Euros

	Structure of ENDESA's net financial debt											
	30 June 2014						31 December 2013					
	ENDESA and subsidiaries, excluding Enersis		Enersis		Total ENDESA		ENDESA and subsidiaries, excluding Enersis		Enersis		Total ENDESA	
Millions of Euros	%	Millions of Euros	%	Millions of Euros	%	Millions of Euros	%	Millions of Euros	%	Millions of Euros	%	
Euro	1,202	100	-	-	1,202	26	1,631	100	-	-	1,631	38
US dollar	(2)	-	1,216	36	1,214	27	-	-	1,088	40	1,088	25
Chilean Peso / Unidades de Fomento	-	-	(256)	(8)	(256)	(6)	-	-	(200)	(7)	(200)	(5)
Brazilian real	-	-	502	15	502	11	-	-	405	15	405	9
Colombian peso	-	-	1,581	47	1,581	35	-	-	1,187	44	1,187	27
Peruvian nuevo sol	-	-	253	8	253	6	-	-	195	7	195	5
Argentine peso	-	-	54	2	54	1	-	-	31	1	31	1
<b>TOTAL</b>	<b>1,200</b>	<b>100</b>	<b>3,350</b>	<b>100</b>	<b>4,550</b>	<b>100</b>	<b>1,631</b>	<b>100</b>	<b>2,706</b>	<b>100</b>	<b>4,337</b>	<b>100</b>
Fixed rate	554	46	1,981	59	2,535	56	806	49	1,924	71	2,730	63
Floating rate	646	54	1,369	41	2,015	44	825	51	782	29	1,607	37
<b>TOTAL</b>	<b>1,200</b>	<b>100</b>	<b>3,350</b>	<b>100</b>	<b>4,550</b>	<b>100</b>	<b>1,631</b>	<b>100</b>	<b>2,706</b>	<b>100</b>	<b>4,337</b>	<b>100</b>
Average life (years)	4.8		6.4		5.9		6.3		5.7		6.0	

Information on the average cost of net financial debt is as follows:

Percentage (%)

	30 June 2014			31 December 2013		
	ENDESA and subsidiaries ex-Enersis	Enersis	Total ENDESA	ENDESA and subsidiaries ex-Enersis	Enersis	Total ENDESA
Average cost	3.0	8.6	6.4	3.2	8.1	5.8

At 30 June 2014, ENDESA's liquidity amounted to Euros 7,548 million (Euros 11,377 million at 31 December 2013), of which Euros 4,757 million corresponded to amounts available through unconditional credit facilities (Euros 7,232 million at 31 December 2013), as follows:

Millions of Euros

	Liquidity structure					
	30 June 2014			31 December 2013		
	Cash <sup>(1)</sup>	Available <sup>(2)</sup>	Total Liquidity	Cash <sup>(1)</sup>	Available <sup>(2)</sup>	Total Liquidity
ENDESA and subsidiaries ex-Energis	1,168	4,195 <sup>(4)</sup>	5,363	1,928 <sup>(3)</sup>	6,683 <sup>(4)</sup>	8,611
Energis	1,623	562	2,185	2,217	549	2,766
<b>TOTAL ENDESA</b>	<b>2,791</b>	<b>4,757</b>	<b>7,548</b>	<b>4,145</b>	<b>7,232</b>	<b>11,377</b>

(1) Cash and cash equivalents

(2) Available through unconditional credit facilities

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

(4) Amounts available from unconditional credit facilities at 30 June 2014 and 31 December 2013 include Euros 1,000 million and Euros 3,500 million, respectively, corresponding to a credit facility extended by ENEL Finance International, N.V. No amounts had been drawn down on this facility at these dates.

The Euros 397 million placed in financial instruments maturing in over three months must be added to the aforementioned amounts.

At 30 June 2014, ENDESA's liquidity in Spain is sufficient to cover its debt maturing in the coming 28 months for this group of companies, while Energis' liquidity covers its debt maturing in the coming 35 months.

At the date of this consolidated management report, ENDESA's credit ratings are as follows:

Credit rating

	30 June 2014 <sup>(*)</sup>			31 December 2013 <sup>(*)</sup>		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Negative	Baa2	P-2	Negative
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Rating Watch Negative

(\*) At the respective dates of the consolidated management report

## Financial leverage

ENDESA's consolidated equity stood at Euros 27,220 million at 30 June 2014, Euros 458 million higher than at 31 December 2013. This change is primarily due to profit before non-controlling interests obtained during the period amounting to Euros 1,087 million, to the acquisition of interests owned by non-controlling shareholders in Companhia Energética do Ceará, S.A. for Euros 181 million, which reduced the equity relating to non-controlling interests, and to the distribution of dividends to non-controlling shareholders amounting to Euros 473 million.

Euros 21,156 million of consolidated equity correspond to ENDESA, S.A. shareholders and Euros 6,064 million to non-controlling shareholders.



Changes in ENDESA's equity and net financial debt resulted in leverage (net financial debt/equity) of 16.72% at 30 June 2014, compared to 16.21% at 31 December 2013.



ENERGÍA PARA LA VIDA

## Results by Business Line

## **Business in Spain and Portugal**

### **Net income – Spain and Portugal: Euros 579 million**

Net income from the Spain and Portugal business was Euros 579 million euros in the first half of 2014, Euros 144 million lower than in the same period of 2013, contributing to 75.7% of ENDESA's total net income.

EBITDA stood at Euros 1,694 million, down 6.4% year on year, while EBIT totalled Euros 965 million, up 2.1% on the same period of 2013.

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

- A new Royal Decree draft regulating the production of electricity and the procedure for dispatching power in non-mainland electricity systems was received for observations in July 2014. This draft is implemented retroactively as of 1 January 2012 for the remuneration of non-mainland generation, with an impact of Euros 259 million for 2012 and 2013 when compared to the previous framework. Euros 97 million of this amount were already provisioned in 2013 based on a previous draft in 2013. Therefore, EBITDA in the first half of 2014 includes a Euros 162 million decrease in income as a result of restating the remuneration of non-mainland generation in 2012 and 2013.
- The figure for the first half of 2014 includes the effects of certain regulatory measures approved by the Spanish government in 2013 that were not reflected in the results for the first half of 2013. These measures primarily include the reduced remuneration distribution and for non-mainland electricity generation and as set out in Royal Decree Law 9/2013, of 12 July, draft Royal Decree on non mainland systems previously referred, and the assumption by ENDESA, S.A. of the cost of 41.61% of the subsidised electricity tariff ("bono social"). These measures had a negative impact of Euros 253 million on EBITDA for the first half of 2014.
- Fixed costs were reduced by 8.1% (Euros 90 million) thanks to ENDESA's considerable cost-control efforts, which aim to mitigate the impact on results of the negative effects of regulatory measures enacted by the Spanish government in recent years.
- The average price on the wholesale electricity market stood at Euros 32.0/MWh in the first half of 2014, 11.6% lower than the same period in 2013, thereby resulting in a lower average cost of procuring electricity and a reduction in the tax on electricity generation.

Despite the drop in EBITDA, EBIT rose 2.1% to Euros 965 million as a result of changes in the price of CO<sub>2</sub> emission allowances, which entailed recognising a provision of Euros 105 million in the first half of 2013, whereas in the first half of 2014, the company reversed a provision of Euros 23 million. In both cases the purpose was to bring the carrying amount of these allowances in line with their market value.

With regard to net income, the figure for the first half of 2014 includes a provision of Euros 50 million to cover ENDESA's cost of discontinuing the activities of Elcogas, S.A. after the company was deemed economically unviable following application of the measures set out in the Royal Decree governing the mechanism to guarantee the output from certain power plants that use Spanish coal, for reasons of supply security.

## Regulatory update

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

### **Royal Decree 413/2014, of 6 June, which regulates the production of electricity from renewable energy sources, combined heat and power, and waste**

This Royal Decree approved a new remuneration framework for facilities producing electricity from renewable energy sources, combined heat and power, and waste, following Royal Decree Law 9/2013, of 12 July, adopting urgent measures to ensure the financial stability of the electricity system, and Electricity Sector Law 24/2013, of 26 December.

The new methodology replaces the previous regulated tariff structure with a new framework which applies the concept of reasonable return, guaranteeing a profit before tax based on the average yield of 10-year treasury bills plus 300 basis points. Under this new framework, in addition to remuneration for the sale of electricity valued at market price, facilities will be eligible to receive a specific remuneration consisting of a term per unit of installed capacity which covers, where appropriate, the investment costs for a standard facility that cannot be recovered through electricity sales on the market, which is known as return on investment, and an operating term which covers, where applicable, the difference between the operating costs and the income from the investment on the production market for this standard facility, which is known as return of operations.

The new remuneration system will be applied equally to facilities already in operation and new facilities. For new facilities, adherence to the specific remuneration regime will be established through a series of competitive procedures.

In non-mainland territories (formerly known as Island and Non-Mainland Electricity Systems), an incentive is established for investment when generation costs are reduced.

The regulation also establishes the terms under which remuneration parameters should be reviewed. These may be only be modified, as applicable, every six years, every three years or every year. The standard value of the initial investment and the regulatory useful life of the asset shall remain unchanged once they have been recognised for each standard facility.

Ministerial Order IET/1045/2014, of 16 June, approving the remuneration parameters for standard facilities applicable to certain facilities producing electricity from renewable energy sources, combined heat and power, and waste, and establishing specific values for the standard costs for each of the standard facilities defined, was published in the Official State Gazette on 20 June 2014.

### **Royal Decree Law 8/2014, of 4 July, approving urgent measures to boost growth, competitiveness and efficiency**

On 4 July 2014, the Council of Ministers approved this Royal Decree Law, which was published on 5 July, which, among other matters, includes the reform regarding remuneration of the gas system, for the purpose of designing an economically sustainable system that minimises costs for the consumer and, with regard to energy efficiency, created the Energy Efficiency National Fund with the aim of achieving energy savings.

In the gas market, the purpose of the reform is to resolve the tariff deficit of the gas sector and to ensure an economically sustainable system for the future, the main principles of which are as follows:

- Recognition of the deficit generated until 31 December 2014 and payment in 15 years.
- Elimination of the structural deficit and adjustment of the remuneration of regulated activities.
- Rules for financial sustainability in the gas system to avoid generating new deficits.
- Align the remuneration of activities to changes in demand.

With regard to energy efficiency, from its entry into force, the Royal Decree Law establishes a system of obligations for companies selling gas and electricity, for wholesale operators of oil products, and for wholesale operators of liquefied petroleum gas. Each year the Ministry of Industry, Energy and Tourism issues an Order that determines an annual savings target and the share thereof relating to each obligated party depending on their final energy sales in the year  $n-2$ , as well as the financial equivalence to calculate the amount equal to the investment necessary to comply with these obligations through contributions to a Energy Efficiency National Fund. Alternatively, and in accordance with government regulations, a mechanism could be established for confirming the amount of energy savings achieved that is equal to compliance with system obligations. This mechanism will be based on the presentation of negotiable energy saving certificates, obtained by carrying out energy efficiency actions defined in a



catalogue and that comply with the requirements and conditions established in this catalogue, which will be managed by the Spanish Institute for Energy Diversification and Savings.

The Spanish energy efficiency obligation scheme will be in effect from the entry into force of this Royal Decree Law, i.e. 5 July 2014, until 31 December 2020.

The Royal Decree Law stipulates that obligated parties must make a contribution to the Energy Efficiency National Fund for 2014 as of 5 July 2014. ENDESA's contribution amounts to Euros 14 million.

### **Proposed Royal Decree regulating the production of electricity and the procedure for dispatching power in non-mainland electricity systems**

Within the context of the reform measures for the energy sector approved by the Council of Ministers on 12 July 2013, the government began to process several regulatory developments that relate, among other matters, to electricity generated in non-mainland territories (formerly known as Island and Non-Mainland Electricity Systems), and a proposed Royal Decree is currently in process in this connection. The proposed Royal Decree also implements matters already contained in Law 17/2013, of 29 October, to guarantee supply and increase competition in these systems.

The proposal establishes a scheme similar to the current scheme, made up of remuneration for fixed costs, which includes fixed investment, operations and maintenance costs, and for variable costs, including fuel and operations and maintenance costs. Certain aspects of the methodology are changed in order to improve the efficiency of the system. The methodology proposed would be applicable from its entry into force, with a transitional period for certain measures from 1 January 2012

In accordance with Electricity Sector Law 24/2013, of 26 December, the financial remuneration rate of the net investment recognised will be tied to the return on the 10-year treasury bills on the secondary market plus the appropriate spread. For the first regulatory period, which runs until 31 December 2019, this rate will correspond to the average return of the price on the secondary market of the 10-year treasury bills for April, May and June 2013, plus 200 basis points.

A new proposed Royal Decree with new elements was received on 4 July 2014 with regard to non-mainland territories. Among them, it is worth to mention the extension of the measures to which the transitional period applies and, therefore, with retroactive effects from January 1.

### **Electricity tariff for the first quarter of 2014**

On 19 December 2013, the twenty-fifth CESUR (Last Resort Energy Supply Contracts) auction was held to determine the cost of energy to be included in the calculation of the Small Consumer Voluntary Price (SCVP), which replaces the Last Resort Tariff. After the auction, on 20 December the National Markets and



Competition Commission (CNMC) issued a ruling declaring that the results of the auction could not be validated in view of procedural irregularities 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 prevailing regulations, the auction was cancelled for all intents and purposes.

Accordingly, on 20 December 2013, the Secretary of State for Energy issued a Resolution declaring that the price arising from the twenty-fifth CESUR auction could not be taken into account when calculating the estimated cost of wholesale contracts, as the auction had been cancelled for all effects.

On 28 December 2013, the Official State Journal (BOE) published Royal Decree Law 17/2013, of 27 December, determining the price of electricity in contracts subject to the Small Consumer Voluntary Price in the first quarter of 2014. This Royal Decree Law set the prices for base and peak products necessary for calculating the energy costs to be included in the Small Consumers Voluntary Price, considering the public price references of the Iberian Energy Derivatives Exchange (OMIP) for 1Q14 base and peak products contracts in the last six months of trading available at the date of approval of Royal Decree Law 17/2013, of 27 December. Accordingly, as of 1 January 2014, the Small Consumer Voluntary Price was modified by 1.4%, keeping access tariffs unchanged. The price was approved in a Resolution of 30 December 2013. Royal Decree Law 17/2013, of 27 December, also established that suppliers of reference would be compensated for the discrepancies between the prices stipulated by law and the market price, through inclusion of the differences in the Small Consumer Voluntary Price for in the following quarter. At June 30, 2014 ENDESA has recorded a liability of 113 million euros to cover the liability for these discrepancies.

On 1 February 2014, Ministerial Order IET/107/2014 was published in respect of revised 2014 access tariffs, with an average increase of approximately 2% from 1 February. The Order calls for an annual payment to recover the deficit envisaged for 2013, and the inclusion in 2013 access tariffs of compensation for non-mainland territories (formerly known as Island and Non-Mainland Electricity Systems) for that year not financed by the General State Budget, as per Electricity Sector Law 24/2013, of 26 December. The Small Consumer Voluntary Price was also revised, bringing an average increase of around 2% (with respect to prices prevailing at 31 December 2013) following Royal Decree Law 17/2013, of 27 December, and Ministerial Order IET/107/2014, of 31 January.

### **Royal Decree 216/2014, of 28 March, establishing the methodology for calculating the Small Consumer Voluntary Price electricity tariff and the contracting system**

This Royal Decree, published on 29 March 2014, sets out the methodology for calculating the Small Consumer Voluntary Price as of 1 April 2014. Key aspects of this Royal Decree are as follows:

- The cost of energy to be used in calculating the Small Consumer Voluntary Price for will be the energy price per hour in the daily and intraday market in

the invoice period, plus adjustment services, capacity payments and System Operator and Market Operator financing payments.

- For consumers with remote meters integrated in the system, the hourly price will be applied to the actual hourly consumption; otherwise, the profile published by the System Operator will be used.
- This new mechanism will be applied as of 1 April 2014. Prior to 1 July 2014, the suppliers of reference must adapt their IT systems in order to invoice consumers under the new scheme. In the meantime, the cost of energy to be applied in the Voluntary Price for Small Consumers will be the temporary price established for the first quarter of 2014. Subsequently, the cost will be adjusted in invoices for consumption as of 1 April 2014, in the first billing period after suppliers' IT systems are duly adapted for the new SCVP. The liability recorded as of June 30 of 2014 in connection with this item amounted to 38 million euros.
- In addition, electricity consumed in the first quarter of 2014 must be adjusted in the first invoices issued following adaptation of the IT systems, as per Royal Decree Law 17/2013, of 27 December, taking into account the spread between the market price and the cost of purchasing energy included in the Small Consumer Voluntary Price for in that period.
- The Royal Decree also establishes that, within two months of its publication, the Spanish Markets and Competition Commission shall propose to the Secretary of State for Energy specific procedures for verifying, validating and closing data taken from metering equipment connected to the remote system for the purposes of hourly measurements. These proposed procedures will include a maximum period for completing the remote measurement of all remote meters installed.
- As an alternative, the suppliers of reference will be required to extend an offer to customers entitled to the Small Consumer Voluntary Price in the form of a fixed price for a one-year period, comprising the revisable access tolls and a fixed value for one year (in €/kW) for the remaining items. The offer shall remain in force for one month, and shall be consistent throughout Spain. Each supplier of reference may have only one offer in force during the period.
- The Royal Decree also establishes that the subsidised electricity tariff ("bono social") will be equal to a 25% discount on the Voluntary Price for Small Consumers.

On 28 March 2014, the Official State Journal (BOE) published Law 3/2014, of 27 March, amending the consolidated text of the General Consumer Protection Law and other complementary legislation, approved under Legislative Royal Decree 1/2007, of 16 November. Among other aspects, this Law amends Law 24/2013, of 26 December, in order to pave the way for some of the terms established in Royal Decree 216/2014, of 28 March.



## **Ministerial Order IET/350/2014, of 7 March, establishing the distribution percentages for the amounts to be financed in respect of the subsidised electricity tariff ("bono social") for 2014**

Royal Decree 9/2013, of 12 July, included a new regulation for the subsidised electricity tariff ("bono social"), requiring, as a public service obligation, parent companies or vertically-integrated groups of companies carrying out electricity generation, distribution and marketing activities, to assume the cost of the subsidised electricity tariff in proportion to a percentage based on both their number of supply connections to distribution grids and the number of customers they serve. The Spanish Markets and Competition Commission calculates this percentage annually, subject to approval by the Ministry of Industry, Energy and Tourism.

According to Ministerial Order IET/350/2014, of 7 March, the percentage of the 2014 subsidised electricity tariff to be financed by ENDESA, S.A. is 41.61% equivalent to 56 million euros in the first half of 2014.

### **Domestic coal**

A Resolution of 30 December 2013 handed down by the Secretary of State for Energy approved coal quantities, maximum output and energy remuneration prices for 2014 to be applied in the security of supply restrictions resolution process. This Resolution was amended by further resolutions dated 22 April 2014 and 8 July 2014, to examine certain transfers of Spanish coal between power plants affected by security of supply restrictions.

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

Ministerial Order IET/2446/2013, of 27 December, revised access tolls as of 1 January, introducing a general increase of around 2%, with no changes made to Last Resort Tariffs.

## **Revenue: Euros 10,253 million**

Revenue for the Spain and Portugal business stood at Euros 10,253 million in the first half of 2014, down Euros 455 million year on year (-4.2%).

Of this amount, revenue from sales accounted for Euros 9,613 million (-4.9%), while other operating revenues accounted for Euros 640 million (+7.2%).

### **Sales**

Sales in the Spain and Portugal business from January to June 2014 were as follows:

Millions of Euros

<b>Sales in the Spain and Portugal business</b>				
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>Difference</b>	<b>% change</b>
Electricity sales	6,931	7,381	(450)	(6.1)
Sales to the deregulated market	3,879	3,685	194	5.3
Sales at regulated prices	1,603	2,047	(444)	(21.7)
Wholesale market sales	426	400	26	6.5
Supply to customers in deregulated markets outside Spain	454	425	29	6.8
Non-mainland compensation	563	815	(252)	(30.9)
Electricity trading	6	9	(3)	(33.3)
Regulated revenue from electricity distribution	1,009	1,080	(71)	(6.6)
Gas supply	1,075	1,097	(22)	(2.0)
Other sales and services rendered	598	553	45	8.1
<b>TOTAL</b>	<b>9,613</b>	<b>10,111</b>	<b>(498)</b>	<b>(4.9)</b>

Mainland electricity demand shrank by 1.2% year on year in the first half of 2014 (+0.1% adjusted for working days and temperature).

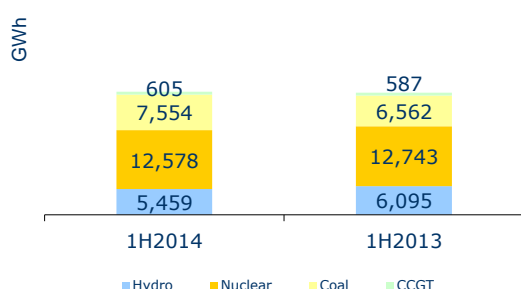
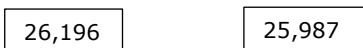
ENDESA's mainland ordinary regime output totalled 26,196 GWh in the first half of 2014, 0.8% greater than in the first half of 2013. This increase is due to the increase in output at both coal-fired plants (+15.1%) and combined cycle plants (+3.1%), and was offset by the decrease in output from hydro plants (-10.4%) and nuclear plants (-1.3%).

Nuclear and hydro energy accounted for 68.9% of ENDESA's mainland generation mix under the ordinary regime (72.5% in January-June 2013), compared to 69.4% for the rest of the sector (65.9% in January-June 2013).

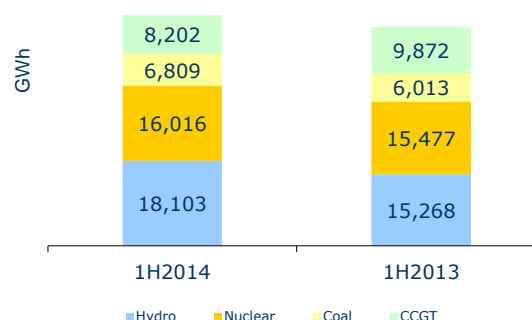
ENDESA's output in non-mainland territories was 5,782 GWh, a decrease of 1.5% compared to the first half of 2013.

ENDESA achieved a market share of 34.8% in ordinary regime mainland generation, a 42.6% share in distribution and a 37.5% share in sales to customers in the deregulated market.

**Ordinary regime mainland output (ENDESA)**  
**Total: 26,196 GWh (+0.8%)**



**Ordinary regime mainland output (Sector ex. ENDESA)**  
**Total: 49,130 GWh (+5.4%)**



### Supply to deregulated customers

ENDESA had 4,276,509 customers (+31.8%) in the deregulated market at the end of the first half of 2014: 3,573,973 (+31.4%) in the Spanish mainland market, 547,800 (43,5%) in the non mainland systems and 154,736 (+8.8%) in European deregulated markets other than Spain.

ENDESA sold a total of 37,972 GWh to these customers in the first half of 2014, an increase of 5.3%.

Sales in the Spanish deregulated market totalled Euros 3,879 million, which is Euros 194 million more than the year-ago figure (up 5.3%). Revenue from sales to deregulated European markets other than Spain totalled Euros 454 million, up 6.8% on that of the first half of 2013.

### Sales at regulated prices

During the first half of 2014, ENDESA sold 9,114 GWh to customers under regulated prices, down 20.2% on the same period of 2013.

These sales generated revenue of Euros 1,603 million from January to June 2014, down 21.7% year on year.

Revenue from this activity is reduced by a liability of Euros 151 million, recognised at 30 June 2014 in connection with the amount invoiced to customers that should be adjusted upon application of the mechanism established in Royal Decree Law 17/2013, of 27 December, and in Royal Decree 216/2014, of 28 March.

### **Non-mainland compensation**

Compensation for extra non-mainland generation in the first half of 2014 amounted to Euros 563 million, 30.9% less than in the same period in 2013.

This decrease is due to the effect of re-estimating the compensation for 2012 and 2013 as a result of the new Royal Decree draft, which became known in July 2014, regulating the production of electricity and the procedure for dispatching power in non-mainland electricity systems, which represented a Euros 162 million reduction in income, and to the effect of this draft on the compensation accrued in the first half of 2014, which represented a Euros 98 million reduction in income with regard to the regulations used to calculate income in the financial statements for the first half of 2013.

### **Electricity distribution**

ENDESA distributed 54,423 GWh of power in the Spanish market in the first half of 2014, 0.8% less than in the same period in 2013.

Regulated revenue from distribution activities stood at Euros 1,009 million, down 6.6% compared to the same period of 2013, as a result of the application of Royal Decree Law 9/2013, of 12 July.

### **Gas supply**

ENDESA sold 36,779 GWh of natural gas to customers in the deregulated market in Spain in the first half of 2014, which represents a 9.2% increase on the 2013 figure.

Revenue from gas sales in the deregulated market totalled Euros 1,075 million, down Euros 22 million (-2.0%) on the figure for the first half of 2013 due to the drop in sale price.

## Operating expenses

The breakdown of operating expenses in the Spain and Portugal business in the first half of 2014 is as follows:

Millions of Euros

<b>Operating expenses – Spain and Portugal business</b>				
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>Difference</b>	<b>% change</b>
Procurements and services	7,608	7,838	(230)	(2.9)
Power purchases	2,321	2,651	(330)	(12.4)
Cost of fuel consumed	1,144	1,231	(87)	(7.1)
Transmission costs	3,030	3,016	14	0.5
Other variable procurements and services	1,113	940	173	18.4
Personnel expenses	439	494	(55)	(11.1)
Other fixed operating expenses	580	615	(35)	(5.7)
Depreciation and amortisation, and impairment losses	729	865	(136)	(15.7)
<b>TOTAL</b>	<b>9,356</b>	<b>9,812</b>	<b>(456)</b>	<b>(4.6)</b>

### Procurements and services (variable costs)

Procurement and services (variable costs) amounted to Euros 7,608 million in the first half of 2014, 2.9% less than the same period of 2013 due mainly to the lower cost of power purchases (Euros 330 million) and fuel consumed (Euros 87 million), due to the impact of the lower average purchase price as a result of the drop in the average price on the wholesale electricity market and the cost of raw materials.

The lower cost of power purchases and fuel consumed amounting to Euros 417 million was partially offset by the Euros 173 million increase in "Other variable procurements and services" as a result of the Euros 90 million increase in CO<sub>2</sub> emission costs due to the higher fossil-fuel output and the increase in the market price of these allowances, as well as the Euros 58 million increase in valuation expenses and losses on the settlement energy derivatives. It should be mentioned that this increase in valuation expenses and losses on the settlement of energy derivatives is offset by a Euros 85 million increase in income in this connection, which is recognised under "Other operating revenues".

### Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 1,019 million in the first half of 2014, a reduction of Euros 90 million (-8.1%) with regard to the same period of 2013.

Personnel expenses amounted to Euros 439 million, a 11.1% decrease, reflecting the workforce reduction carried out and the efforts to contain salary costs.

Other fixed operating expenses stood at Euros 580 million, down Euros 35 million (-5.7%) as a result of the cost reduction policy implemented.

## Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 729 million in the first half of 2014, Euros 136 million (-15.7%) less than the same period of 2013.

Amortisation and depreciation charges for these first six months remained in line with those of the first half of 2013. Accordingly, the decrease in this heading is because the figure at 30 June 2013 included Euros 105 million in impairment losses on the CO<sub>2</sub> emissions allowance portfolio to reflect the lower market price, whereas at 30 June 2014 a reversal of Euros 23 million was recognised in view of the rise in market prices.

### Net financial loss: Euros 67 million

The net financial loss in the first half of 2014 stood at Euros 67 million, Euros 2 million more than the same period in 2013. This difference reflects the Euros 1 million decrease in the net finance costs and a Euros 3 million increase in the net exchange differences.

Net financial debt in the Spain and Portugal business stood at Euros 1,147 million at 30 June 2014, compared to Euros 1,435 million at 31 December 2013.

The net financial debt at 30 June 2014 is held to finance Euros 2,121 million in regulatory receivables: Euros 1,400 million for the shortfall in revenue from regulated activities prior to 31 December 2013, Euros 238 million for the shortfall generated in the first half of 2014 due to transitory imbalances in accordance with the application of the new deficit financing mechanism established in Law 24/2013, of 26 December, and Euros 483 million in compensation for electricity generated in non-mainland electricity systems.

### Cash flow from operating activities: Euros 1,628 million

Cash flow from operating activities in the Spain and Portugal business totalled Euros 1,628 million in the first half of 2014, compared to Euros 810 million in the first half of 2013, mainly due to improved working capital.

### Gross investment: Euros 415 million

Gross investment in the Spain and Portugal business in the first half of 2014 totalled Euros 415 million, as detailed in the following table:

Millions of Euros

<b>Gross investment in the Spain and Portugal business</b>			
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
CapEx	303	286	5.9
Intangible assets <sup>(1)</sup>	30	21	42.9
Investment property	-	1	(100.0)





Financial investments <sup>(2)</sup>	82	14	485.7
<b>TOTAL</b>	<b>415</b>	<b>322</b>	<b>28.9</b>

(1) Excluding CO<sub>2</sub> emission allowances, Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs)

(2) Financial investments include the financing granted to Elcogas, S.A. in the amount of Euros 51 million mainly to enable the company to pay its debt with financial institutions that was guaranteed by the shareholders.

The following table shows a breakdown of gross CapEx among the various activities:

Millions of Euros

<b>Gross CapEx in the Spain and Portugal business</b>			
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
Generation	100	89	12.4
Distribution	202	196	3.1
Other	1	1	-
<b>TOTAL</b>	<b>303</b>	<b>286</b>	<b>5.9</b>

## **Business in Latin America**

### **Net income in Latin America: Euros 186 million**

Net income in ENDESA's Latin America business was Euros 186 million in the first half of 2014, representing a 52.4% decline against the first half of 2013 and a contribution to ENDESA's total net income of 24.3%.

EBITDA stood at Euros 1,217 million, representing a decrease of Euros 512 million (-29.6%) against the first half of 2013, Euros 173 million of which are due to the currency devaluation with regard to the euro in Latin American countries in which ENDESA carries out its activities. EBIT amounted to Euros 892 million, a 35.0% decrease on the first half of 2013.

Excluding the impact of exchange differences on the currencies mentioned above, the decrease in income from the Latin America business is due primarily to the following factors:

- The recognition in the first half of 2013 of the impact of Resolution 250/2013 issued by Argentina's Energy Secretary, whereby Empresa Distribuidora Sur, S.A. recognised the income from the compensation for cost variations not transferred to the tariff between 2007 and February 2013 in relation to the amounts to be applied under the Cost Controlling Mechanism (MMC) adjustment for a total of Euros 344 million.
- The decrease in financial assets due to the amount to be recovered by distributors in Brazil, for a total of Euros 39 million, and the extra power purchases of Brazilian distributors not offset by the tariff in the first half of 2014, for a total of Euros 32 million, although they must be offset in successive periods.
- The drop in income from electricity generation in Chile due to adverse rainfall conditions and the stoppage at the Bocamina II power station.

## Highlights

With respect to the economic environment in ENDESA's Latin American operating markets, energy demand grew during the first six months of 2014 in Brazil (+5.4%), Peru (+5.4%), Colombia (+4.3%), Argentina (+3.2%) and Chile (+2.0%).

Against this backdrop, distribution sales by ENDESA companies, excluding tolls and unbilled consumption, totalled 31,283 GWh, an increase of 4.4% compared to the same period in 2013, with increases recorded in Brazil (+6.9%), Peru (+4.0%), Argentina (3.9%), Chile (+2.9%) and Colombia (+2.5%).

Output across ENDESA's generation business shrank 1.0% to 28,410 GWh. Specifically, output was lower in Chile (-10.4%) and Colombia (-4.0%), which was offset by the increases in Brazil (+11.6%), Peru (+7.4%) and Argentina (+4.8%).

GWh

<b>Electricity generation and sales in Latin America</b>				
	<b>Generation</b>		<b>Distribution</b>	
	<b>January-June 2014</b>	<b>% change 1H2013</b>	<b>January-June 2014</b>	<b>% change 1H2013</b>
Argentina	7,155	4.8	7,391	3.9
Brazil	2,473	11.6	9,905	6.9
Chile	8,166	(10.4)	6,595	2.9
Colombia	6,113	(4.0)	4,029	2.5
Peru	4,503	7.4	3,363	4.0
<b>TOTAL</b>	<b>28,410</b>	<b>(1.0)</b>	<b>31,283</b>	<b>4.4</b>

## Unit margins

The unit margin in the generation business fell by 5.3% in the first half of 2014, to Euros 25.2/MWh. Improvements were seen in Argentina (+9.1%), Peru (+7.0%) and Colombia (+6.9%), although they did not offset the decreases in unit margin in Chile (-29.6%) and Brazil (-10.3%).

The unit margin in the distribution business was Euros 25.6/MWh in the first half of 2014, narrowing 37.4% compared to the same period in 2013, with reductions across all countries: Argentina (-77.0%), Brazil (-34.2%), Chile (-16.4%), Colombia (-10.8%) and Peru (-2.0%).

## New capacity development

In the first half of 2014, work continued on the construction of the El Quimbo in Colombia hydro plant (400 MW), having entered into agreements with local residents and non-residents and been awarded the contract to use the reservoir, which will allow the construction area to be cleared in order to begin filling the reservoir during the second quarter of 2015.

On 27 March 2014, Empresa Nacional de Electricidad, S.A. agreed to invest USD 699 million (approximately Euros 512 million) in the construction of the Los

Cóndores hydroelectric power station (150 MW) in Chile. Commercial operation of the plant is slated for the fourth quarter of 2018. Civil engineering and equipment contracts were awarded and the masters schedule detailed in the construction work is being implemented.

## Regulatory developments

### Argentina

On 3 January 2014, the Ministry of Federal Planning and the Argentine Electricity Sector Regulator (ENRE) issued three rulings regarding the suspension of supply affecting Buenos Aires since 16 December 2013. ENRE Resolution 1/2014 determined the unit amounts of the extraordinary compensation that Empresa Distribuidora Sur, S.A. is required to pay those users affected by the suspension until the service is fully restored. The other two rulings by the Ministry of Federal Planning relate to the characteristics of distributor call centres (Resolution 2/2014) and to the requirement that the trust created under Resolution 347 (Resolution 3/2014) for the financing of public investment works adheres to instructions issued by the Ministry's Sub-Secretary of Coordination and Management Control.

On 20 May 2014, the Energy Secretary, through Resolution no. 529, updated the remuneration for electricity producers that was in force since February 2013 pursuant to Resolution no. 95. This Resolution, which is retroactively effective since February 2014, increased the recognition of fixed costs of combined cycle plants and large hydroelectric power plants by 25%, and variable costs were increased by 41% for fossil-fuel plants and by 25% for hydroelectric plants. New variable remuneration was also established for operating with biodiesel. A new charge was also created for non-recurring maintenance costs of ARS 24/MWh (equal to Euros 1.9/MWh) for generating electricity using combined cycle plants and ARS 24/MWh (equal to Euros 2.1/MWh) for generation using fossil fuels.

On 20 May 2014, the Secretary of Energy published Resolution no. 530 with regard to the electricity tariff convergence programme, by means of which Argentina and 23 provinces agreed to level out the tariff mismatches. The provinces therefore agreed to freeze the current tariff rates for 365 days and not to maintain any energy debt with Compañía Administradora del Mercado Mayorista Eléctrico (CAMMESA), establishing a payment plan for up to 36 payments. In exchange, the government will allocate funds from the stabilisation fund to finance electricity distribution work in the provinces.

On 10 June 2014, Empresa Distribuidora Sur, S.A. sent the Argentine Electricity Sector Regulator the change to the Cost Controlling Mechanism (MMC) for the period from October 2013 to March 2014. The change to the Cost Controlling Mechanism (MMC), which was offset against income from the Rational Use of Electricity Programme (PUREE), covered costs until September 2013 and was carried out pursuant to Resolution 250/2013.

On 18 June 2014, the Argentine Electricity Sector Regulator issued Provision no. 36/14, which extended the appointment of the Chairman of the Argentine Electricity

Sector Regulator as an inspector in Empresa Distribuidora Sur, S.A. by an addition 90 days.

## **Brazil**

On 12 December 2013, the Brazilian electricity regulator, Agência Nacional de Energia Elétrica (ANEEL), decided to extend the trial period for the new tariff system, known as the "flag system", until the end of 2014. The proposed flag system for tariffs (green, yellow and red flags) aims to address monthly changes in customers' energy tariffs, providing notice of increases in power purchase costs. Although it was initially proposed that the system would come into force in 2014, ANEEL decided to postpone the scheme for another year in order to streamline the regulatory adaptation process.

On 7 March 2014, the Brazilian government approved Decree 8,203, which, as in the previous year, allowed the use of the Energy Development Fund (Conta de Desenvolvimento Energético, CDE) to cover additional expenses of distributors due to involuntary exposure to the spot market and the costs of thermal output arising because of low reservoir levels. To that end, the Brazilian Treasury allocated BRL 1,200 million (approximately Euros 400 million) to cover the January shortfall.

To cover the remaining months of 2014 (February to December), the government approved Decree 8,221, of 1 April, which authorised the Brazilian Chamber of Commerce for Electricity (CCEE) to pay the aforementioned extra costs using credit facilities obtained from market financing. To ensure this financing, Decree 8,221 requires the funds to be guaranteed by the Energy Development Fund. The Brazilian Chamber of Commerce for Electricity subsequently took out a loan for BRL 11,200 million (approximately Euros 3,733 million). These funds were allocated to the distributors to cover the shortfall of February, March and April 2014.

After the tariff processes to be carried out in 2015, ANEEL will define a uniform charge for all consumers, to be collected by companies and passed on the Energy Development Fund, in order to repay the loan assumed by the Chamber of Commerce for Electricity.

In addition to the loan, the Brazilian Treasury may also allocate another BRL 2,800 million (approximately Euros 933 million) for subsequent months, as occurred in January.

The Decree also establishes that the excess costs that cannot be covered through the mechanism described above, due to insufficient financing, will be incorporated in future tariffs through the normal tariff adjustment process.

In addition to the measures described, on 24 March 2014, the Ministry of Mines and Energy published Ministerial Directive no. 118, which established the conditions for the A-0 energy auction, with supply as from May, to allow distributors to reassume their deficits in 2014.

On 11 March 2014, ANEEL approved the request submitted by Companhia Energética do Ceará, S.A. for recognition of the portion of the cost of the value-added tax



(Impuesto a la Circulación de Mercaderías y Servicios, ICMS) that had not been offset, which retroactively amounts to Euros 45 million plus Euros 4.5 million per year. This amount will be included in the tariff over the coming four years.

On 7 April 2014, ANEEL approved the third tariff review of Ampla Energia e Serviços, S.A. The new tariffs in force entail an average increase of 2.64% for consumers. On 15 April 2014, ANEEL then approved the tariff adjustment for Companhia Energética do Ceará, S.A. The average tariff adjustment to be received by consumers is +16.77%, effective as of 22 April 2014, primarily affected by the high costs of power purchases.

On 30 April 2014, the government held the A-0 energy auction to cover the 3,300 MW deficit of distributors in 2014 and to reduce their exposure to the high spot price (BRL 823/MWh, equal to Euros 274.3/MWh). With the beginning of supply on 1 May 2014, 2,046 MW were awarded for a period of 5 years and 8 months. The average price of the tender was BRL 268/MWh (equal to Euros 89.3/MWh) and it is estimated that the additional excess costs for Brazilian distributors will be recovered in the 2015 tariff adjustments.

## Chile

On 17 January 2014, the Supreme Court of Justice authorised the construction of the Punta Alcalde thermoelectric power station. This court, the highest in the nation, overturned the rulings issued by the Santiago Appellate Court and upheld the Committee of Ministers' favourable environmental assessment for the project (Resolution no. 159). The ruling requires strict compliance with Resolution no. 159 and orders that the power station may not be commissioned without the prior installation and operation of an electrostatic precipitator and unless compliance with efficiency standards reaches 90%.

On 29 May 2014, the Court of appeals of Concepción issued first instance judgment, accepting the appeal for protection, but only in accordance with the measures ordered by the Court, which involves that Empresa Nacional de Electricidad S.A. must carry out adequate actions and arrangements to ensure that the operation of units I and II will not lead to environmental damage and unintended impacts in the Resolution of Environmental Qualification 206/2007 or in the respective sectoral legislation; desulfurizer must be installed without delay in unit I and that the competent services must regularly monitor the operation of thermoelectric power plant.

On 30 January 2014, the Chilean President enacted Law 20,726 on the Interconnection between Electricity Systems. The benefits of interconnection include enhanced supply security and a greater generation supply, as well as improved market competitiveness and downward pressure on marginal costs. Interconnection is expected to be completed prior to 2018.

On 9 February 2014, the Department of the Environment lifted the suspension of operations placed on the first unit of the Bocamina thermoelectric plant in Region VIII (Bocamina I). By doing so, the environmental regulatory agency rendered ineffective the temporary closure of the 125 MW plant as well as the corrective,



security and control measures laid out in the Resolution issued on 28 January 2014.

On 13 February 2014, the Expert Panel published Decision no. 1/2014 regarding the sub-transmission tariff review process. Chilectra, S.A. disputed the useful lives of facilities and the valuation of rights related with land use. The Decision published took into account the modified useful lives proposed by Chilectra, S.A. for certain equipment. The Expert Panel did not, however, take into account Chilectra, S.A.'s proposals regarding land use, and those established by the National Energy Commission (CNE) prevail (namely, the historical value of land and easements, pegged to the consumer price index). The Decision reduces the negative impact of the bases for determining remuneration by 30%.

On 14 March 2014, the Chilean government published a decree setting prices for electricity distribution-related services other than energy supply. The main services include post support, meter rental, connection and disconnection of the service on account of outstanding debt, late payment charges and splicing. The Decree is not retroactive and therefore the new tariffs are in force as from the date of approval.

## **Colombia**

On 13 May 2014, the new Renewable Energy Law 1715 was approved. One of the aims of this law is to progressively replace diesel generation in non-interconnected areas in order to reduce the costs of providing the service and emissions of pollutant gases. The new law also establishes the legal framework for promoting and using non-conventional energy sources, and for promoting energy efficiency and responding to demand within the framework of Colombia's energy policy. The Non-Conventional Energy and Efficient Energy Management Fund was also created to finance energy efficiency programmes.

## **Corporate operations**

### **Voluntary takeover bid on Companhia Energética do Ceará, S.A.**

On 14 January 2014, Enersis, S.A. presented a voluntary takeover bid at a price of BRL 49 per share, targeting non-controlling shareholders of Companhia Energética do Ceará, a Brazilian electricity distributor controlled through ENDESA Brasil, S.A., which holds 58.87% of its shares.

After the acceptance period, Enersis, S.A. acquired 3,002,812 ordinary shares, 8,818,006 Class A preference shares and 424 Class B preference shares in the company for a total of USD 242 million (approximately Euros 181 million).

Consequently, as a result of the voluntary takeover bid, Enersis, S.A. increased its holding in Companhia Energética do Ceará, S.A. by 15,18%, bringing its total direct and indirect ownership interest in this country at the date of issuance of these interim consolidated financial statements to 74.05%. This represented a Euros 62 million decrease under "Equity of the Parent".

## **Acquisition of an additional 50% interest in GasAtacama**

On 22 April 2014, Empresa Nacional de Electricidad, S.A. and Southern Cross Latin American Private Equity Fund III, L.P. signed the pertinent documents and contracts whereby the former directly acquired all the equity interests held by the latter, either on its own behalf or through related companies, in Inversiones GasAtacama Holding Ltda., equivalent to 50% of that company, including the transfer of the loan held by Pacific Energy Sub Co. in the group. The total price of the deal was USD 309 million (approximately Euros 227 million), and was fully settled at that date. The parties also withdrew from the shareholders' agreement signed on 1 August 2007.

As a result of this transaction, Empresa Nacional de Electricidad, S.A. secured a 100% holding in Inversiones GasAtacama Holding Ltda., assuming total control of the company it had previously controlled jointly with the other party.

GasAtacama owns the natural gas thermoelectric power station (781 MW of installed capacity) in the Norte Grande Interconnected System (SING), the Mejillones-Taltal gas pipeline and the Atacama gas pipeline between Chile and Argentina.

Empresa Nacional de Electricidad, S.A.'s aim is to make GasAtacama a supplier of base energy in the Norte Grande Interconnected System, providing a reliable, competitive and environmentally-sound energy supply using liquefied natural gas (LNG).

Empresa Nacional de Electricidad, S.A. would therefore be able to meet the higher residential, industrial and mining demand, paving the way for projects supporting the country's growth and unlocking numerous operating and management synergies.

As a result of this transaction, ENDESA secured a 100% holding in Inversiones GasAtacama Holding Ltda. Therefore, in accordance with current accounting legislation, ENDESA recognised a gain as a result of measuring at fair value the 50% holding in Inversiones GasAtacama Holding Ltda., prior to carrying out the aforementioned transaction, which amounted to Euros 28 million and was recognised under "Income from asset disposals" in the consolidated income statement.

## **Acquisition of an additional 39% interest in Generandes Perú**

On 30 April 2014, Enersis, S.A. entered into an agreement with Inkia Americas Holding Limited to acquire its 39.001% indirect holding in Generandes Perú, S.A. for USD 413 million (approximately Euros 300 million). The shares will be transferred and, accordingly, the purchase price will be paid after verification of compliance with certain conditions precedent set out in the agreement.





With this acquisition, Enersis, S.A. will secure a 100% holding in Generandes Perú, S.A., which in turn owns a 54.2% interest in Edegel, S.A.A. This is in addition to the 17.6% interest that Enersis, S.A. already indirectly holds in Edegel, S.A.A.

This transaction will increase ENDESA's effective ownership interest in Edegel, S.A.A., which determines the economic interest that ENDESA holds in this company (from the current 22.7% to 35.5%).

In addition, as a result of this transaction and once compliance with the conditions precedent have been verified, the following companies, through which Inkia Americas Holding Limited holds its interest in Generandes Perú, S.A., will be incorporated in ENDESA's consolidated financial statements: Inkia Holdings (Acter) Limited; Southern Cone Power Ltd.; Latin America Holding I Ltd.; Latin America Holding II Ltd. and Southern Cone Power Perú, S.A.A.

Given that ENDESA already controls and therefore includes both Generandes Perú, S.A. and Edegel, S.A.A. in its consolidated financial statements, this acquisition is considered to be a transaction between shareholders and accordingly has no effect on the consolidated statement of comprehensive income and the values of the subsidiaries' assets and liabilities recognised in the consolidated statement of financial position will not be modified.

### EBITDA: Euros 1,217 million

ENDESA's Latin America business reported EBITDA of Euros 1,217 million in the first half of 2014, down 29.6% on the year-ago figure. The Euros 173 million decrease in EBITDA against the same period of the previous year was due to exchange rate fluctuations between the euro and the local currencies of the countries in which ENDESA operates.

EBIT stood at Euros 892 million, a 35.0% decrease on the figure reported in the first half of 2013.

The breakdown of earnings for ENDESA's various businesses in Latin America is as follows:

Millions of Euros

<b>EBITDA and EBIT from the Latin America business</b>						
	<b>EBITDA</b>			<b>EBIT</b>		
	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>
Generation and transmission	714	761	(6.2)	562	584	(3.8)
Distribution	529	990	(46.6)	356	811	(56.1)
Other	(26)	(22)	18.2	(26)	(22)	18.2
<b>TOTAL</b>	<b>1,217</b>	<b>1,729</b>	<b>(29.6)</b>	<b>892</b>	<b>1,373</b>	<b>(35.0)</b>

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

Millions of Euros

<b>EBITDA and EBIT from the Latin America business - Generation and transmission</b>						
	<b>EBITDA</b>			<b>EBIT</b>		
	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>
Argentina	41	31	32.3	25	9	177.8
Brazil	103	110	(6.4)	95	100	(5.0)
Chile	90	150	(40.0)	30	77	(61.0)
Colombia	314	314	-	288	285	1.1
Peru	132	119	10.9	99	87	13.8
<b>TOTAL GENERATION</b>	<b>680</b>	<b>724</b>	<b>(6.1)</b>	<b>537</b>	<b>558</b>	<b>(3.8)</b>
Brazil-Argentina interconnection	34	37	(8.1)	25	26	(3.8)
<b>TOTAL GENERATION AND TRANSMISSION</b>	<b>714</b>	<b>761</b>	<b>(6.2)</b>	<b>562</b>	<b>584</b>	<b>(3.8)</b>

Millions of Euros

<b>EBITDA and EBIT from the Latin America business - Distribution</b>						
	<b>EBITDA</b>			<b>EBIT</b>		
	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>	<b>January- June 2014</b>	<b>January- June 2013</b>	<b>% change</b>
Argentina	(54)	237	(122.8)	(62)	225	(127.6)
Brazil	181	314	(42.4)	99	241	(58.9)
Chile	120	138	(13.0)	102	112	(8.9)
Colombia	208	229	(9.2)	161	180	(10.6)
Peru	74	72	2.8	56	53	5.7
<b>TOTAL DISTRIBUTION</b>	<b>529</b>	<b>990</b>	<b>(46.6)</b>	<b>356</b>	<b>811</b>	<b>(56.1)</b>

## Generation and transmission

### Argentina

The 4.8% increase in output in the first half of 2014 and the 9.1% rise in unit margin, as a result of the application of Energy Secretary Resolution 529, gave rise to 32.3% increase in EBITDA compared to the first half of 2013 to Euros 41 million, including the absorption of foreign currency losses of Euros 11 million due to exchange rate fluctuations between the euro and the Argentine peso.

EBIT for these first six months totalled Euros 25 million, up Euros 16 million (+177.8%) compared to the same period of the previous year.

### Brazil

The total electricity output by ENDESA investees in Brazil stood at 2,473 GWh in the first half of 2014, up 11.6% on the same period of 2013.

Despite the higher level of generation during the period, the 10.3% decline in the unit margin caused EBITDA to decrease 6.4% to Euros 103 million, including the



foreign currency losses of Euros 24 million due to exchange rate fluctuations between the euro and the Brazilian real.

EBIT in the first half of 2014 was Euros 95 million (down 5.0%).

## **Chile**

EBITDA for the generation business in Chile fell by Euros 60 million in the first half of 2014 (-40.0%), of which Euros 16 million relate to foreign currency losses due to exchange rate fluctuations between the euro and the Chilean peso.

The inclusion of GasAtacama in the scope of consolidation in the second quarter of 2014 did not offset the decline in electricity generation (-10.4%) as a result of adverse rainfall conditions in Chile and the stoppage of the Bocamina II power station. This situation, coupled with the drop in unit margin (-29.6%), kept generation EBITDA at Euros 90 million for the first half of 2014, compared to the Euros 150 million recorded in the same period of 2013.

EBIT for the first half of the year totalled Euros 30 million, down Euros 47 million (-61.0%) compared to the same period of the previous year.

## **Colombia**

Total electricity output of ENDESA's Colombian investees stood at 6,113 GWh in the first half of 2014, down 4.0% on the same period of 2013. However, the unit margin improved by 6.9%, despite the Euros 38 million in losses due to exchange rate fluctuations, which allowed EBITDA to remain unchanged at Euros 314 million in the first half of 2014 compared to the year-ago figure. EBIT increased by Euros 3 million from January to June 2014 to Euros 288 million.

## **Peru**

EBITDA for the first half of 2014 rose by Euros 13 million (+10.9%) with regard to the same period of the previous year to Euros 132 million, despite the Euros 15 million in exchange rate losses due to increased output (+7.4%) and the improved unit margin (+7.0%).

EBIT in the first six months of 2014 totalled Euros 99 million, up 13.8% on the same period the previous year.

## **Argentina - Brazil interconnection**

Compañía de Interconexión Energética, S.A. posted first-half EBITDA and EBIT of Euros 34 million and Euros 25 million, respectively, representing decreases of Euros 3 million and Euros 1 million against the same period of 2013.

Both these figures include a losses of Euros 8 million and Euros 6 million, respectively compared to the same period of the previous year due to exchange rate fluctuations between the euro and local currencies.

## Distribution

### Argentina

Argentina's distribution EBITDA continues to be negative in the amount of Euros 54 million, due to the tariff shortfall that does not adequately include the costs of this business.

EBITDA in the first half of 2013 included the impact of Resolution 250/2013 issued by Argentina's Energy Secretary, whereby Empresa Distribuidora Sur, S.A. recognised the income from the compensation for cost variations not transferred to the tariff between 2007 and February 2013 in relation to the amounts to be applied under the Cost Controlling Mechanism (MMC) adjustment for a total of Euros 301 million. Accordingly, EBITDA in the first half of 2014 included income of Euros 63 million due to the recognition of the Cost Controlling Mechanism (MMC) for the period from October 2013 to March 2014.

### Brazil

During this period, electricity distributors bore excess costs of Euros 352 million arising from contractual exposure of the price of energy on the spot market, which reached all-time highs in the first quarter of 2014. Euros 106 million of this amount have yet to be offset during the period, whereby part of this amount will be recovered over the next few months of 2014 and the rest will be recovered in successive tariff reviews.

Similarly, foreign currency losses amounting to Euros 33 million were incurred due to exchange rate fluctuations between the euro and the Brazilian real.

In this context, EBITDA and EBIT for the first half of 2014 stood at Euros 181 million and Euros 99 million, respectively, representing decreases of Euros 133 million (-42.4%) and Euros 142 million (-58.9%), respectively, on the same period of 2013.

### Chile

The 2.9% increase in sales volume as a result of rising demand was absorbed by the 16.4% reduction in unit margin and the exchange rate losses of Euros 25 million, pushing EBITDA for the Chilean distribution business to Euros 120 million (down 13.0%).

EBIT in the first half of 2014 dropped 8.9% to Euros 102 million.

### Colombia

The Euros 25 million in exchange rate losses in the first half of 2014 was not offset by the 2.5% increase in sales volume.

EBITDA and EBIT for the Colombian distribution business declined by 9.2% and by 10.6%, respectively, to Euros 208 million and Euros 161 million.

## Peru

Financial indicators for the Peruvian distribution business were strong during the first six months of 2014, due to the 4.0% rise in sales volumes, which offset the 2.0% drop in unit margins and the Euros 9 million in exchange rate losses.

This put EBITDA at Euros 74 million, up 2.8% on the same period of 2013, and EBIT at Euros 56 million, 5.7% higher year on year.

## Net financial loss: Euros 257 million

ENDESA's Latin America business generated a net financial loss of Euros 257 million in the first half of 2014, a year-on-year increase of 53.7%.

Euros 40 million of this increase relate to exchange differences, which went from Euros 6 million in exchange losses in the first half of 2013 to Euros 46 million in the first half of 2014 as a result of the drop in value of Latin American currencies, mainly the Argentine peso, with regard to the U.S dollar in relation to ENDESA's debt in U.S dollars.

Finance costs for the first half of 2014 amounted to Euros 211 million, which represents an increase of Euros 110 million. When analysing this increase, the following non-recurring factors recorded in the first half of 2013 and 2014 should be taken into account:

- The recognition in the first half of 2014 of Euros 110 million in finance costs as a result of restating the financial asset included in the estimate of the amount to be recovered at the end of the concession period by the Brazilian distributors, considering therefore, the restatement of new asset base resulting from the tariff review of Ampla Energia e Serviços, S.A.
- The recognition by the Argentinean government of the Cost Controlling Mechanism (MMC) from 2007 to February 2013 generated finance income of Euros 43 million in the first half of 2013. . Accordingly, the financial loss for the first half of 2014 included Euros 6 million in income due to the recognition of the Cost Controlling Mechanism (MMC) for the period from October 2013 to March 2014.

Excluding the impacts mentioned above, net finance costs were reduced by Euros 37 million as a result of the reduction in average debt over the period. The net financial debt of ENDESA's Latin America business stood at Euros 3,403 million at 30 June 2014, Euros 501 million greater than the figure at 31 December 2013.

## Cash flow from operating activities: Euros 338 million

ENDESA's business in Latin America generated a net cash flow of Euros 338 million in the first half of 2014, compared to Euros 695 million in the same period of the previous year. This reduction is due primarily to the drop in income generated during the period.

## Gross investment: Euros 634 million

Gross investment in this business totalled Euros 634 million in the first half of 2014. Of this amount, Euros 86 million relate to financial investments, and Euros 548 million to CapEx and investments in intangible assets, as shown in the table below:

Millions of Euros

<b>Total gross investments - Latin America business</b>			
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
CapEx	429	386	11.1
Intangible assets	119	119	-
Investment property	-	1	(100.0)
Financial investments	86	80	7.5
<b>TOTAL</b>	<b>634</b>	<b>586</b>	<b>8.2</b>

Millions of Euros

<b>Gross CapEx investment and investment in intangible assets in Latin America</b>			
	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
Generation	262	224	17.0
Distribution and transmission	167	161	3.7
Other	-	1	100.0
<b>TOTAL CAPEX</b>	<b>429</b>	<b>386</b>	<b>11.1</b>
<b>Intangible assets <sup>(1)</sup></b>	<b>119</b>	<b>119</b>	<b>-</b>
<b>TOTAL CAPEX AND INVESTMENT IN INTANGIBLE ASSETS</b>	<b>548</b>	<b>505</b>	<b>8.5</b>

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

In addition, during the first half of 2014 acquisitions of shares in consolidated companies were made amounting to Euros 408 million, which relate to the acquisition of an additional 50% of Inversiones GasAtacama Holding, Ltd. (Euros 227 million), and to the acquisition of 15.18% of Companhia Energética do Ceará, S.A. (Euros 181 million).



## **Appendix I: Statistical information**

## Key figures

GWh

Electricity generation output	January-June 2014	January-June 2013	% change
<b>Business in Spain and Portugal</b>	<b>31,978</b>	<b>31,856</b>	<b>0.4</b>
Mainland	26,196	25,987	0.8
Nuclear	12,578	12,743	(1.3)
Coal	7,554	6,562	15.1
Hydroelectric	5,459	6,095	(10.4)
Combined cycle (CCGT)	605	587	3.1
Non-mainland	5,782	5,869	(1.5)
<b>Business in Latin America</b>	<b>28,410</b>	<b>28,709</b>	<b>(1.0)</b>
Argentina	7,155	6,825	4.8
Brazil	2,473	2,216	11.6
Chile	8,166	9,109	(10.4)
Colombia	6,113	6,366	(4.0)
Peru	4,503	4,193	7.4
<b>TOTAL</b>	<b>60,388</b>	<b>60,565</b>	<b>(0.3)</b>

GWh

Electricity sales	January-June 2014	January-June 2013	% change
<b>Business in Spain and Portugal</b>	<b>47,086</b>	<b>47,496</b>	<b>(0.9)</b>
Reference marketing	9,114	11,427	(20.2)
Deregulated market	37,972	36,069	5.3
<b>Business in Latin America</b>	<b>31,283</b>	<b>29,957</b>	<b>4.4</b>
Argentina	7,391	7,116	3.9
Brazil	9,905	9,266	6.9
Chile	6,595	6,408	2.9
Colombia	4,029	3,932	2.5
Peru	3,363	3,235	4.0
<b>TOTAL</b>	<b>78,369</b>	<b>77,453</b>	<b>1.2</b>

GWh

Energy distributed (*)	January-June 2014	January-June 2013	% change
<b>Business in Spain and Portugal</b>	<b>54,423</b>	<b>54,874</b>	<b>(0.8)</b>
<b>Business in Latin America</b>	<b>42,993</b>	<b>41,376</b>	<b>3.9</b>
Argentina	9,962	9,737	2.3
Brazil	13,613	12,859	5.9
Chile	8,197	7,878	4.0
Colombia	7,226	7,069	2.2
Peru	3,995	3,833	4.2
<b>TOTAL</b>	<b>97,416</b>	<b>96,250</b>	<b>1.2</b>

(\*) At power plant busbars



GWh

<b>Gas sales in the Spain and Portugal business</b>	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
Deregulated market	23,624	22,366	5.6
Regulated market	598	706	(15.3)
International market	5,234	4,983	5.0
Wholesale business	7,921	6,318	25.4
<b>TOTAL (*)</b>	<b>37,377</b>	<b>34,373</b>	<b>8.7</b>

(\*) Excluding own generation consumption

Number of employees

<b>Period-end headcount</b>	<b>30 June 2014</b>	<b>31 December 2013</b>	<b>% change</b>
Business in Spain and Portugal	10,786	10,933	(1.3)
Business in Latin America	12,046	11,608	3.8
<b>TOTAL</b>	<b>22,832</b>	<b>22,541</b>	<b>1.3</b>

Number of employees

<b>Average headcount</b>	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
Business in Spain and Portugal	10,870	11,179	(2.8)
Business in Latin America	11,747	11,184	5.0
<b>TOTAL</b>	<b>22,617</b>	<b>22,363</b>	<b>1.1</b>

## Financial data

Euros

<b>Key figures</b>	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
EPS <sup>(1)</sup>	0.72	1.05	(31.3)
CFPS <sup>(2)</sup>	1.86	1.42	31.0
BVPS <sup>(3)</sup>	19.98	19.38 <sup>(4)</sup>	3.1

(1) Profit attributed to the Parent / No. shares

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

(3) Equity attributable to equity holders of the Parent / No. shares

(4) At 31 December 2013

<b>Profitability indicators</b>	<b>January-June 2014</b>	<b>January-June 2013</b>
Return on equity <sup>(1) (%)</sup>	5.67	8.53
Return on assets <sup>(2) (%)</sup>	2.79	3.89
Economic profitability <sup>(3) (%)</sup>	11.74	14.26

(1) Profit attributed to the Parent / average equity

(2) Profit attributed to the Parent / average total assets

(3) Operating income / Average PP&E



Millions of Euros

Net financial debt	Leverage ratio	
	30 June 2014	31 December 2013
<b>Net financial debt</b>	<b>4,550</b>	<b>4,337</b>
Non-current interest-bearing loans and borrowings	6,861	7,437
Current interest-bearing loans and borrowings	546	1,127
Cash and cash equivalents	(2,791)	(4,145)
Derivatives recognised as financial assets	(66)	(82)
<b>Equity</b>	<b>27,220</b>	<b>26,762</b>
Parent	21,156	20,521
Non-controlling interests	6,064	6,241
<b>Leverage ratio (%)<sup>(*)</sup></b>	<b>16.72</b>	<b>16.21</b>

(\*) Net financial debt / Equity

Financial indicators	January-June 2014	January-June 2013
Liquidity ratio <sup>(1)</sup>	1.26	1.20
Solvency ratio <sup>(2)</sup>	1.05	1.05
Debt ratio <sup>(%) (3)</sup>	14.32	13.95
Debt coverage ratio <sup>(4)</sup>	0.78	0.61

(1) Current assets / Current liabilities

(2) (Equity + Non-current liabilities) / Non-current assets

(3) Net financial debt / (Equity + Net financial debt)

(4) Net financial debt / EBITDA

Ratings	30 June 2014 <sup>(*)</sup>			31 December 2013 <sup>(*)</sup>		
	Long term	Short term	Outlook	Long term	Short term	Outlook
Standard & Poor's	BBB	A-2	Stable	BBB	A-2	Stable
Moody's	Baa2	P-2	Negative	Baa2	P-2	Negative
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Rating Watch Negative

(\*) At the respective dates of issue of the consolidated management reports

Euros / Share

Dividends	Against 2013 earnings
Interim <sup>(2 January 2014)</sup>	1,500
Final	-
Total dividend per share	1,500
Pay-out <sup>(%) (1)</sup>	84.5
Dividend yield <sup>(%) (2)</sup>	6.4

(1) Total gross dividend / Net profit attributable to the Parent

(2) Gross dividend per share / Market closing share price at 31 December 2013



<b>Stock market data</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>% change</b>
Market cap <small>(Millions of Euros)</small>	29,910	17,374	72.2
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Par value <small>(Euros)</small>	1.2	1.2	-
Cash <small>(Thousands of Euros)</small>	1,597	1,168	36.7
<b>Spanish electronic trading platform <small>(Shares)</small></b>			
Trading volume	64,754,169	67,827,300	(4.5)
Average daily trading volume	518,033	542,618	(4.5)
P.E.R. <small>(*)</small>	19.55	7.80	

(\*) Closing price / Earnings per share

Euros

<b>ENDESA share price</b>	<b>January-June 2014</b>	<b>January-June 2013</b>	<b>% change</b>
High	29.19	18.87	54.7
Low	21.17	16.11	31.4
Average	25.43	17.22	47.7
At 31 March 2013	28.25	16.41	72.2

Percentage (%)

<b>Share price evolution compared to previous year (%)</b>	<b>January-June 2014</b>	<b>January-June 2013</b>
<b>ENDESA, S.A.</b>	21.2	(2.7)
Ibex-35	10.2	(5.0)
Eurostoxx 50	3.8	(1.3)
Eurostoxx Utilities	18.5	(5.8)

**Appendix II**  
**Effect of the restatement of the 2013**  
**consolidated financial statements**  
**upon application of IFRS 11 “Joint**  
**Arrangements”**

## Consolidated Statement of Financial Position

	1 January 2013	Consolidated 1 January 2013 (Restated)	Difference
<b>Non-current assets</b>	<b>44,487</b>	<b>44,239</b>	<b>(248)</b>
<b>Current assets</b>	<b>14,291</b>	<b>13,957</b>	<b>(334)</b>
<b>TOTAL ASSETS</b>	<b>58,778</b>	<b>58,196</b>	<b>(582)</b>
<b>Equity</b>	<b>26,369</b>	<b>26,360</b>	<b>(9)</b>
Parent	20,653	20,653	-
Non-controlling interests	5,716	5,707	(9)
<b>Non-current liabilities</b>	<b>21,644</b>	<b>21,391</b>	<b>(253)</b>
<b>Current liabilities</b>	<b>10,765</b>	<b>10,445</b>	<b>(320)</b>
<b>TOTAL LIABILITIES</b>	<b>58,778</b>	<b>58,196</b>	<b>(582)</b>

Millions of Euros

	31 December 2013	Consolidated 31 December 2013 (Restated)	Difference
<b>Non-current assets</b>	<b>42,851</b>	<b>42,695</b>	<b>(156)</b>
<b>Current assets</b>	<b>13,606</b>	<b>13,262</b>	<b>(344)</b>
<b>TOTAL ASSETS</b>	<b>56,457</b>	<b>55,957</b>	<b>(500)</b>
<b>Equity</b>	<b>26,769</b>	<b>26,762</b>	<b>(7)</b>
Parent	20,521	20,521	-
Non-controlling interests	6,248	6,241	(7)
<b>Non-current liabilities</b>	<b>18,474</b>	<b>18,153</b>	<b>(321)</b>
<b>Current liabilities</b>	<b>11,214</b>	<b>11,042</b>	<b>(172)</b>
<b>TOTAL LIABILITIES</b>	<b>56,457</b>	<b>55,957</b>	<b>(500)</b>



Millions of Euros

	<b>Business in Spain and Portugal</b>		
	<b>31 December 2013</b>	<b>31 December 2013 (Restated)</b>	<b>Difference</b>
<b>Non-current assets</b>	<b>26,401</b>	<b>26,243</b>	<b>(158)</b>
<b>Current assets</b>	<b>8,069</b>	<b>7,851</b>	<b>(218)</b>
<b>TOTAL ASSETS</b>	<b>34,470</b>	<b>34,094</b>	<b>(376)</b>
<b>Equity</b>	<b>15,669</b>	<b>15,669</b>	<b>-</b>
Parent	15,669	15,669	-
Non-controlling interests	-	-	-
<b>Non-current liabilities</b>	<b>12,569</b>	<b>12,306</b>	<b>(263)</b>
<b>Current liabilities</b>	<b>6,232</b>	<b>6,119</b>	<b>(113)</b>
<b>TOTAL LIABILITIES</b>	<b>34,470</b>	<b>34,094</b>	<b>(376)</b>

Millions of Euros

	<b>Business in Latin America</b>		
	<b>31 December 2013</b>	<b>31 December 2013 (Restated)</b>	<b>Difference</b>
<b>Non-current assets</b>	<b>16,450</b>	<b>16,452</b>	<b>2</b>
<b>Current assets</b>	<b>5,537</b>	<b>5,411</b>	<b>(126)</b>
<b>TOTAL ASSETS</b>	<b>21,987</b>	<b>21,863</b>	<b>(124)</b>
<b>Equity</b>	<b>11,100</b>	<b>11,093</b>	<b>(7)</b>
Parent	4,852	4,852	-
Non-controlling interests	6,248	6,241	(7)
<b>Non-current liabilities</b>	<b>5,905</b>	<b>5,847</b>	<b>(58)</b>
<b>Current liabilities</b>	<b>4,982</b>	<b>4,923</b>	<b>(59)</b>
<b>TOTAL LIABILITIES</b>	<b>21,987</b>	<b>21,863</b>	<b>(124)</b>

## Income Statement

Millions of Euros

	January-June 2013	January-June 2013 (Restated)	Difference
Revenue	15,892	15,770	(122)
Procurements and services	(10,517)	(10,463)	54
<b>Contribution margin</b>	<b>5,375</b>	<b>5,307</b>	<b>(68)</b>
<b>EBITDA</b>	<b>3,583</b>	<b>3,539</b>	<b>(44)</b>
Depreciation and amortisation, and impairment losses	(1,241)	(1,221)	20
<b>EBIT</b>	<b>2,342</b>	<b>2,318</b>	<b>(24)</b>
<b>Net financial loss</b>	<b>(171)</b>	<b>(172)</b>	<b>(1)</b>
<b>Net profit of companies accounted for using the equity method</b>	<b>29</b>	<b>48</b>	<b>19</b>
<b>Profit before tax</b>	<b>2,263</b>	<b>2,256</b>	<b>(7)</b>
Income tax	(599)	(592)	7
<b>Profit for the period</b>	<b>1,664</b>	<b>1,664</b>	-
Parent	1,114	1,114	-
Non-controlling interests	550	550	-

Millions of Euros

	Business in Spain and Portugal		Difference
	January-June 2013	January-June 2013 (Restated)	
Revenue	10,757	10,708	(49)
Procurements and services	(7,857)	(7,838)	19
<b>Contribution margin</b>	<b>2,900</b>	<b>2,870</b>	<b>(30)</b>
<b>EBITDA</b>	<b>1,833</b>	<b>1,810</b>	<b>(23)</b>
Depreciation and amortisation, and impairment losses	(878)	(865)	13
<b>EBIT</b>	<b>955</b>	<b>945</b>	<b>(10)</b>
<b>Net financial loss</b>	<b>(62)</b>	<b>(65)</b>	<b>(3)</b>
<b>Net profit of companies accounted for using the equity method</b>	<b>21</b>	<b>31</b>	<b>10</b>
<b>Profit before tax</b>	<b>966</b>	<b>961</b>	<b>(5)</b>
Income tax	(243)	(238)	5
<b>Profit for the period</b>	<b>723</b>	<b>723</b>	-
Parent	723	723	-
Non-controlling interests	-	-	-

Millions of Euros

	<b>Business in Latin America</b>		
	<b>January- June 2013</b>	<b>January-June 2013 (Restated)</b>	<b>Difference</b>
Revenue	5,135	5,062	(73)
Procurements and services	(2,660)	(2,625)	35
<b>Contribution margin</b>	<b>2,475</b>	<b>2,437</b>	<b>(38)</b>
<b>EBITDA</b>	<b>1,750</b>	<b>1,729</b>	<b>(21)</b>
Depreciation and amortisation, and impairment losses	(363)	(356)	7
<b>EBIT</b>	<b>1,387</b>	<b>1,373</b>	<b>(14)</b>
<b>Net financial loss</b>	<b>(109)</b>	<b>(107)</b>	<b>2</b>
<b>Net profit of companies accounted for using the equity method</b>	<b>8</b>	<b>17</b>	<b>9</b>
<b>Profit before tax</b>	<b>1,297</b>	<b>1,295</b>	<b>(2)</b>
Income tax	(356)	(354)	2
<b>Profit for the period</b>	<b>941</b>	<b>941</b>	<b>-</b>
Parent	391	391	-
Non-controlling interests	550	550	-

## Statement of Other Comprehensive Income

Millions of Euros

	<b>January-June 2013</b>	<b>January-June 2013 (Restated)</b>	<b>Difference</b>
Consolidated profit for the period	1,664	1,664	-
Other comprehensive income:			
Income and expense recognised directly in equity	(968)	(968)	-
Amounts transferred to the income statement and/or investments	65	65	-
<b>Total comprehensive income</b>	<b>761</b>	<b>761</b>	<b>-</b>



## Statement of Cash Flows

Millions of Euros

	Consolidated		Difference
	January-June 2013	January-June 2013 (Restated)	
Net cash flows from/(used in) operating activities	1,520	1,505	(15)
Net cash flows from/(used in) investing activities	(1,230)	(1,242)	(12)
Net cash flows/(used in) financing activities	87	108	21
<b>Total net cash flows</b>	<b>377</b>	<b>371</b>	<b>(6)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(121)	(121)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>256</b>	<b>250</b>	<b>(6)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,986</b>	<b>1,819</b>	<b>(167)</b>
<b>Cash and cash equivalents at end of period</b>	<b>2,242</b>	<b>2,069</b>	<b>(173)</b>

Millions of Euros

	Business in Spain and Portugal		Difference
	January-June 2013	January-June 2013 (Restated)	
Net cash flows from/(used in) operating activities	806	810	4
Net cash flows from/(used in) investing activities	36	17	(19)
Net cash flows/(used in) financing activities	(1,007)	(990)	17
<b>Total net cash flows</b>	<b>(165)</b>	<b>(163)</b>	<b>2</b>
Effect of exchange rate fluctuations on cash and cash equivalents	-	1	1
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(165)</b>	<b>(162)</b>	<b>3</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>574</b>	<b>473</b>	<b>(101)</b>
<b>Cash and cash equivalents at end of period</b>	<b>409</b>	<b>311</b>	<b>(98)</b>

Millions of Euros

	<b>Business in Latin America</b>		
	<b>January- June 2013</b>	<b>January-June 2013 (Restated)</b>	<b>Difference</b>
Net cash flows from/(used in) operating activities	714	695	(19)
Net cash flows from/(used in) investing activities	(1,266)	(1,259)	7
Net cash flows/(used in) financing activities	1,094	1,098	4
<b>Total net cash flows</b>	<b>542</b>	<b>534</b>	<b>(8)</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(121)	(122)	(1)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>421</b>	<b>412</b>	<b>(9)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,412</b>	<b>1,346</b>	<b>(66)</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,833</b>	<b>1,758</b>	<b>(75)</b>



Endesa is an Enel Group Company