



ENDESA, S.A.
and Subsidiaries

**Consolidated Management Report
for the year ended 31 December
2014**

Madrid, 25 February 2015



ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 December 2014

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ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR ENDED 31 December 2014

1. Disposal of ENDESA's Latin America Business

On 30 July 2014, the Board of Directors of ENDESA, S.A. acknowledged and accepted the proposal received from ENEL, S.p.A., through ENEL Iberoamérica, S.L.U. (formerly, ENEL Energy Europe, S.L.U.), to study the proposed acquisition by the latter of the shares of ENEL Latinoamérica, S.A.U. (formerly, ENDESA Latinoamérica, S.A.U.), which in turn owns 40.32% of Enersis, S.A., and 20.3% of the shares of Enersis, S.A. owned directly by ENDESA, S.A., and to pay an extraordinary dividend in cash for at least the amount that ENDESA, S.A. would receive from ENEL Iberoamérica, S.L.U. as a result of the purchase transaction.

The aim of the transaction was the reorganisation of the companies comprising the ENEL Group, adapting its organisational and corporate structure to respond efficiently to the varying requirements of the markets in which it operates.

On 11 September 2014, ENEL Iberoamérica, S.L.U. submitted to ENDESA, S.A. a binding offer to acquire the aforementioned shares for a total purchase price of Euros 8,253 million and pay a dividend for the same amount.

At the meeting held on 21 October 2014, shareholders at the ENDESA, S.A. Extraordinary Shareholders' Meeting agreed to accept the offer submitted by ENEL Iberoamérica, S.L.U. to acquire ENDESA's Latin American business for a total purchase price of Euros 8,253 million and the payment of an extraordinary dividend charged against reserves for the same amount.

On 23 October 2014, in the Disposal of its Latin America business, ENDESA, S.A. sold to ENEL Iberoamérica, S.L.U. the following shareholdings:

- 796,683,058 shares of ENEL Latinoamérica, S.A.U. representing 100% of its share capital.
- 9,967,630,058 shares of Enersis, S.A. representing 20.3% of its share capital.

ENEL Latinoamérica, S.A.U. was established on 26 January 1998 to administer ENDESA's presence in the Latin American market. ENEL Latinoamérica, S.A.U.'s main investee is Enersis, S.A., in which it holds a 40.32% interest.

Enersis, S.A. is a holding company based in Chile with controlling interests in electricity generation and distribution companies in five Latin American countries. Its shares are traded on the Santiago and New York stock exchanges and the Latibex.

The joint Disposal of 100% of ENEL Latinoamérica, S.A.U. and of the 20.3% in Enersis, S.A. means that, at the date these transactions were finalised, ENDESA, S.A. lost control over ENEL Latinoamérica, S.A.U., Enersis, S.A. and therefore all the companies controlled by the

latter. Therefore, these companies are now excluded from the ENDESA, S.A. scope of consolidation.

Appendix IV of the consolidated financial statements for the year ended 31 December 2014 lists the companies which, following the Disposal of the Latin America business finalised on 23 October 2014, will no longer be included in the scope of consolidation from that date.

On 31 July 2014, the balances of these assets and liabilities were transferred to "Non-current assets held for sale and discontinued operations" and "Liabilities associated with non-current assets held for sale and discontinued operations", respectively. The assets transferred ceased to be depreciated as of that date.

All income and expense corresponding to the divested companies, and generated in 2013 and 2014, up until the date the transaction was finalised, were considered discontinued operations and included under "Profit after tax from discontinued operations" in the consolidated income statements for the years ended 31 December 2014 and 2013. The profit generated by the divested companies up until the date of the disposal recognised under "Profit after tax from discontinued operations" in the consolidated income statement for 2014 amounted to Euros 1,281 million.

The consolidated income statement for 2013 was restated in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, reclassifying the income generated and expenses incurred in this period by the divested companies to "Profit after tax from discontinued operations".

On 23 October 2014, ENDESA completed the Disposal of its Latin America business for Euros 8,253 million. The carrying amount of the divested assets and liabilities net of the value of the non-controlling interests at the date on which the disposal was finalised, amounted to Euros 5,933 million, to which Euros 4 million had to be added for the costs incurred in the transaction, producing gross capital gains of Euros 2,316 million on the divestment. Corporate income tax expenditure on the transaction of Euros 279 million must be deducted from this amount, producing capital gains after tax of Euros 2,037 million.

Translation differences and the gains and losses on cash flow hedges recognised in the Parent's equity at that date amounted to a negative Euros 239 million and Euros 34 million, respectively, which were recognised under "Profit after tax from discontinued operations" in the consolidated income statement for 2014. The transaction therefore had a positive impact on the 2014 consolidated income statement of Euros 1,764 million, which was recognised under "Profit after tax from discontinued operations".

Also, at the ENDESA, S.A. Extraordinary Shareholders' Meeting held on 21 October 2014, shareholders agreed to pay an extraordinary dividend charged to reserves of a gross Euros 7,795 per share, for a total amount of Euros 8,253 million. This amount was equal to the funds obtained from the Disposal of the Latin America business and was paid on 29 October 2014 (see Note 5).

2. Business Trends and Results in 2014

Based on that mentioned in Note 1 of this consolidated management report, this Note includes information on business trends and results in 2014, taking into consideration that the Spain and Portugal business relates to continuing operations and the Latin American business to discontinued operations.

2.1. Consolidated Results.

ENDESA reported net income of Euros 3,337 million in 2014 of which Euros 950 million related to the Spain and Portugal business and Euros 2,387 million to the Latin America business.

ENDESA reported a net income of Euros 3,337 million in 2014, a 77.6% increase on 2013. This profit includes a net gain generated by the disposal of the Latin America business in the amount of Euros 1,764 million and the net profit of Euros 623 million generated by this business at the date of the transaction. Net income from ENDESA's business in Spain and Portugal in 2014, referring to Continuing Operations, amounted to Euros 950 million, down 19.2% on 2013.

The decrease in net income from the business in Spain and Portugal in 2014 was due mainly to the following factors:

- A provision of Euros 349 million was recognised within the framework of the various projects for optimising the workforce within the restructuring and reorganisation plan that is being carried out by ENDESA.
- A loss of Euros 107 million was recognised from the investments in Elcogas, S.A. (Euros 51 million) and Nuclenor, S.A. (Euros 56 million).

Particularly worthy of note are the changes recognised in the estimate of income and expenses from non-mainland generation throughout 2014 as a result of the various Royal Decree drafts received regarding non-mainland generation affecting income generated and expenses incurred since 1 January 2012.

At year-end 2013, ENDESA calculated the income and expenses from non-mainland generation based on the last Royal Decree draft available at the date of authorisation for issue of the consolidated financial statements. A new Royal Decree draft was received in July 2014, based on which ENDESA recognised its EBITDA from this activity generated in 2014 as well as the retroactive effects on 2012 and 2013 which were included. Lastly, a new Royal Decree draft was received in January 2015 which took into account the recommendations of a report issued by the Spanish Markets and Competition Commission (CNMC) on October 2014, which indicated that for certain effects cannot be applied retroactively and considers the taxes of Law 15/2012, of 27 December to be recognised costs.

The estimate of income and expenses for the 2012-2014 period made at 31 December 2014 was carried out in accordance with that envisaged in the Royal Decree draft received in January 2015, which generated the following impacts on the Consolidated Income Statement for 2014:

- A negative Euro 114 million on the income and expenses for the 2014 year. In 2014, a net negative impact of Euros 364 million had been registered, which was adjusted at 31 December 2014 after learning of the new Royal Decree draft, proceeding to register a positive impact of Euro 250 million.
- A positive Euros 76 million on the income and expenses of 2012 and 2013 years. In June 2014, a net negative impact of Euro 162 million had been registered, which was adjusted at 31 December 2014 after learning of the new Royal Decree draft, proceeding to register a positive impact of Euros 238 million.

Taking into account that a negative impact of Euro 289 million was registered on gross operating income (EBITDA) in 2013, according to the draft of the Royal Decree available at the date of drawing up of the Consolidated Financial Statements for the 2013 year, the cumulative effect for the years 2012, 2013 and 2014 of the application of the draft of the Royal Decree available in January 2014 is of a negative Euro 327 million.

2.2. Comparative Information.

As a result of the application of IFRS 11 Joint Arrangements as of 1 January 2014, the financial statements of ENDESA's joint ventures, which until 2013 were consolidated proportionately, are accounted for using the equity method. Accordingly, data for the year ended 31 December 2013, presented for purposes of comparison, have been restated to include the measurement of the interests in which ENDESA has joint control using the equity method.

As a result of disposing of the assets related to the Latin America business described in Note 1 of this consolidated management report, the consolidated financial statements for the year ended 31 December 2014 include the figures relating to the Latin America business as Discontinued Operations. This is why the information relating to the consolidated income statement for the year ended 31 December 2013, which is presented here for comparative purposes, has been restated in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to present the results of that business as discontinued operations.

The comparative information corresponding to 2013 used in this consolidated management report has been restated to take into account the information described in the previous paragraphs. The retrospective application of IFRS 11 Joint Arrangements and IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations on the comparative consolidated financial statements is detailed in Note 2.2 to the notes to the consolidated financial statements for the year ended 31 December 2014.

2.3. Analysis of Results.

2.3.1. Continuing Operations (Business in Spain and Portugal).

Net income from Continuing Operations: Euros 950 million.

Net income from continuing operations was Euros 950 million in 2014, down Euros 226 million on 2013.

EBITDA stood at Euros 3,090 million, down 3.9% year-on-year, while EBIT totalled Euros 1,472 million, an 8.9% decline on 2013.

The business' contribution margin increased by 0.7% (Euros 38 million) which, together with the changes in fixed costs, which only increased by Euros 175 million despite the inclusion of

a provision of Euros 349 million to cover the costs of the workforce reduction plan, allowed for a reduction in EBITDA of Euros 126 million.

Revenue: Euros 21,512 million.

In 2014 revenue from ENDESA's business in Spain and Portugal stood at Euros 21,512 million, Euros 3 million less than in 2013.

Of this amount, revenue from sales accounted for Euros 20,473 million (-0.2%), while other operating income accounted for Euros 1,039 million (+3.3%).

Sales.

Sales in the Spain and Portugal business in 2014 were as follows:

Millions of Euros

Sales in the Spain and Portugal business				
	2014	2013	Difference	% change
Electricity sales	14,841	15,161	(320)	(2.1)
Sales to the deregulated market	7,946	7,761	185	2.4
Supply to customers in deregulated markets outside Spain	926	895	31	3.5
Sales at regulated prices	3,264	3,993	(729)	(18.3)
Wholesale market sales	939	962	(23)	(2.4)
Compensation for Non-Mainland Territories (TNP)	1,754	1,537	217	14.1
Electricity trading	12	13	(1)	(7.7)
Gas sales	2,862	2,751	111	4.0
Regulated revenue from electricity distribution	2,038	2,002	36	1.8
Other sales and services rendered	732	595	137	23.0
TOTAL	20,473	20,509	(36)	(0.2)

Mainland electricity demand shrank by 1.2% in 2014 against the previous year (-0.2% adjusted for working days and temperature).

ENDESA's mainland output under the ordinary regime totalled 57,502 GWh in 2014, 2.5% more than in 2013 due to the increase in output at coal-fired plants (+16.1%) and combined cycle plants (+11.3%), all of which was offset by the decrease in output from hydroelectric power plants (-7.7%) and nuclear power plants (-4.4%).

Nuclear and hydroelectric energy accounted for 58.3% of ENDESA's mainland generation mix under the ordinary regime (63.1% in 2013), compared with 58.7% for the rest of the sector (55.7% in 2013).

ENDESA's output in non-mainland territories was 12,179 GWh, a decrease of 1.3% compared to 2013.

ENDESA achieved a market share of 37.7% in ordinary regime mainland generation, a 43.1% share in distribution and a 36.9% share in sales to customers in the deregulated market.

Supply to customers in the deregulated market.

ENDESA had 4,542,795 customers in the deregulated market at the end of September 2014, a 16.3% increase on the year-ago figure at 31 December 2013: 3,775,733 (+15.8%) in the Spanish mainland market, 607,583 (+26.2%) in the non-mainland territories market and 159,479 (-4.0%) in European deregulated markets other than Spain.

ENDESA sold a total of 77,368 GWh to these customers in 2014, a 2.4% increase on 2013.

Sales in the Spanish deregulated market totalled Euros 7,946 million, which is Euros 185 million more than the year-ago figure (up 2.4%). Revenue from sales to deregulated European markets other than Spain rose by 3.5% year-on-year to Euros 926 million.

Sales at regulated prices.

In 2014, ENDESA sold 16,560 GWh to customers via its supplier of reference under regulated prices, which is down 19.4% on 2013.

These sales generated revenue of Euros 3,264 million in 2014, down 18.3% year-on-year.

Compensation for Non-Mainland Territories.

Compensation for non-mainland generation stranded costs in 2014 amounted to Euros 1,754 million, an increase of Euros 217 million or 14.1% on 2013. This compensation was estimated based on the new Royal Decree draft received in January 2015 which regulates the production of electricity and the procedure for dispatching power in non-mainland territories electricity systems.

Compensation in 2014 for non-mainland territories amounted to Euros 76 million relating to the re-estimate of revenue in this connection in 2012 and 2013 in accordance with that established in the Royal Decree draft mentioned above. Compensation in 2013 included a negative impact of Euros 97 million, which was calculated based on the Royal Decree draft available at the date of authorisation for issue of these consolidated financial statements for 2013.

Gas sales.

ENDESA sold 74,343 GWh to customers in the natural gas market in 2014, which represents a 3.7% increase on the 2013 figure.

Revenue from gas sales totalled Euros 2,862 million, up Euros 111 million (+4.0%) on the 2013 figure.

Electricity distribution.

ENDESA distributed 110,945 GWh in the Spanish market in 2014, 1.0% less than the previous year.

Revenue from regulated distribution activities in 2014 totalled Euros 2,038 million, up Euros 36 million on 2013.

Operating expenses.

The breakdown of operating expenses by business in Spain and Portugal in 2014 was as follows:

Millions of Euros

Operating expenses from continuing operations				
	2014	2013	Difference	% change
Procurements and services	15,974	16,015	(41)	(0.3)
Power purchased	5,126	5,379	(253)	(4.7)
Cost of fuel consumed	2,486	2,780	(294)	(10.6)
Transport costs	5,918	6,106	(188)	(3.1)

Other procurements and services	2,444	1,750	694	39.7
Personnel expenses	1,245	1,030	215	20.9
Other fixed operating expenses	1,316	1,356	(40)	(2.9)
Depreciation and amortisation, and impairment losses	1,618	1,601	17	1.1
TOTAL	20,153	20,002	151	0.8

Procurements and services (variable costs).

Procurements and services (variable costs) totalled Euros 15,974 million in 2014, 0.3% less than in 2013.

The costs of power purchases and of fuel consumed dropped by Euros 547 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, which was Euros 42/MWh (-4.7%), and the cost of raw materials. Meanwhile, transmission costs were reduced by Euros 188 million, above all due to lower tolls.

The Euros 735 million reduction in power purchases, cost of fuel consumed and transmission costs was partly offset by the Euros 694 million increase in other variable procurements and services.

In 2014 "Other variable procurements and services" included the Euros 102 million expense recognised pursuant to Ministerial Order IET/350/2014, of 7 March, establishing the distribution percentages for the amounts to be assumed in respect of the subsidised electricity tariff (Social Bonus or "Bono Social") for 2014, which for ENDESA, S.A. is 41.61%.

In 2013 this item showed lower costs on the chargeback of Euros 102 million recognised between 2009 and 2011 for the subsidised electricity tariff following a Supreme Court ruling, which extended the ruling handed down by the Supreme Court to ENDESA and other generation companies under the ordinary regime whereby they are exempted from financing the subsidised electricity tariff cost.

Other changes under "Other variable procurements and services" relate mainly to the Euros 121 increase in CO₂ emission costs due to the higher fossil-fuel output and the increase in the market price of these allowances, and to the Euros 343 million in expenses relating to energy derivatives, partially offset by a Euros 232 million increase in income in this connection, which are recognised under "Other operating income".

Personnel and other operating expenses (fixed costs).

Fixed costs amounted to Euros 2,561 million in 2014, an increase of Euros 175 million (+7.3%) with respect to 2013.

Personnel expenses in 2014 stood at Euros 1,245 million, an increase of Euros 215 million with respect to 2013. Personnel expenses in both 2013 and 2014 were highly affected by the changes in provisions and staff restructuring expenses registered in both years, which are not recurring. Particularly worthy of note is the recognition of a severance pay expense for the sum of Euros 88 million in 2013 and the allocation to the provision for the suspension of contracts amounting to Euros 349 million in 2014. If we consider only recurrent expenses and strip out the effect of capitalised expenses in both years, the impact on the income statement, net of capitalisations of personal expenses, would have been 5.4% lower in 2014 compared to 2013 due to wage restraints and the 3.1% reduction in average headcount.

Other fixed operating expenses stood at Euros 1,316 million, down Euros 40 million (-2.9%) as a result of the cost reduction policy deployed.

Depreciation and amortisation, and impairment losses.

Depreciation and amortisation charges and impairment losses totalled Euros 1,618 million in 2014, Euros 17 million (+1.1%) higher than in 2013.

In 2014, this heading included a provision for impairment of land in the amount of Euros 96 million, of which Euros 65 million relate to that which ENDESA should receive in accordance with the Supreme Court ruling in favour of Josel, S.L., and Euros 31 million relate to losses in the value of certain plots of land to be used as sites to build new electrical power plants, whose construction is not included in the latest industrial plan approved by ENDESA's Board of Directors. In 2014, a provision for impairment of Euros 74 million was also allocated for the concessions and other assets related thereto of the Girabolhos hydroelectric power plant (Euros 43 million) and Distribuidora Eléctrica del Puerto de la Cruz, S.A. (Euros 31 million).

As a result of the technical studies carried out in 2014 on the useful lives of assets of nuclear power plants and combined cycle plants, the useful lives of the assets of both technologies was lengthened, which was applied as of 1 October 2014 and represented a reduction of Euros 43 million in the depreciation charge for 2014. Similarly, investments were made in coal-fired plants in 2014 that lengthened their respective useful lives, which also gave rise to a Euros 30 million reduction in depreciation charges for 2014.

Lastly, in 2014 this heading also included the reversal of an impairment loss of Euros 49 million recognised on the CO₂ emissions allowance portfolio following the mark-to-market measurement of the assets, compared to the Euros 87 million charge recognised in 2013.

Net financial loss: Euros 166 million.

The net financial loss reported for 2014 was Euros 166 million, a year-on-year increase of Euros 60 million (+56.6%).

This was due to a Euros 34 million increase in net financial expenses, as a result of the increase in net financial debt, which arose as a result of the interim dividend paid in October 2014 in order to re-leverage the financial structure, and a Euros 26 million decrease in net exchange gains.

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

In 2014, companies accounted for using the equity method contributed a net loss of Euros 44 million, compared to the net profit of Euros 57 million in 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 establishing the procedure for resolving supply guarantee constraints, the company decided to discontinue its activities at 31 December 2014. On 1 July 2014, the company therefore submitted a request for authorisation for decommissioning from the Ministry of Industry, Energy and Tourism, which has a maximum of one year to hand down its decision (most likely before 1 July 2015). However, in view of the announcement of the imminent approval of a specific plan for Spanish coal, on 13 January 2015 the Elcogas, S.A. Board of Directors requested a temporary stay of the request for decommissioning, provided that it does not extend beyond 1 July 2015 as mentioned above, to be able to assess the company's viability under the new plan, a decision which was ratified by the Shareholders' Meeting on 4 February 2015. The net loss of companies accounted for using the equity method includes a provision amounting to Euros 51 million to cover the estimated cost for ENDESA to discontinue this company's activity.

This item also includes a loss of Euros 56 million on the 50% interest in Nuclenor, S.A. due to the higher costs incurred by this company as a result of the delay in dismantling the Santa María de Garoña nuclear power plant while awaiting a final ruling on its potential reopening.

2.3.2. Discontinued Operations (Latin America Business)

Net income after tax from discontinued operations Euros 3,045 million.

ENDESA's net income after tax from discontinued operations stood at Euros 3,045 million in 2014. Net income includes the following:

- Net gains amounting to Euros 1,764 million obtained in the disposal of the Latin America business described in Note 1 of this consolidated management report.
- Net income before the share of non-controlling interests amounting to Euros 1,281 million from ENDESA's Latin America business until the date of disposal. Having deducted the part corresponding to non-controlling interests, the contribution of the Latin America business to the ENDESA's net income was Euros 623 million, compared with the Euros 703 million obtained from the Latin America business in 2013.

2.4. Statistical Appendix.

Key figures.

GWh

Electricity generation output	2014	2013	% change
Business in Spain and Portugal	69,681	68,439	1.8
Mainland	57,502	56,104	2.5
Nuclear	24,762	25,892	(4.4)
Coal	22,176	19,096	16.1
Hydroelectric	8,778	9,511	(7.7)
Combined cycle (CCGT)	1,786	1,605	11.3
Non-mainland	12,179	12,335	(1.3)
Business in Latin America ⁽¹⁾	45,107	61,449	(26.6)
TOTAL ⁽²⁾	114,788	129,888	(11.6)

(1) Information for 2014 relating to the Latin America business prior to its Disposal.

(2) At power plant busbars.

GWh

Electricity sales	2014	2013	% change
Business in Spain and Portugal	93,928	96,122	(2.3)
Reference supply	16,560	20,554	(19.4)
Deregulated market	77,368	75,568	2.4
Business in Latin America ⁽¹⁾	47,028	61,248	(23.2)
TOTAL	140,956	157,370	(10.4)

(1) Information for 2014 relating to the Latin America business prior to its Disposal. Does not include fees or unbilled consumption.

GWh

Energy distributed ⁽¹⁾	2014	2013	% change
Business in Spain and Portugal	110,945	112,031	(1.0)
Business in Latin America ⁽²⁾	64,827	84,357	(23.2)
TOTAL	175,772	196,388	(10.5)

(1) At power plant busbars.

(2) Information for 2014 relating to the Latin America business prior to its Disposal.

Thousands

Number of customers	31 December 2014	31 December 2013	% change
Business in Spain and Portugal	11,206	11,376	(1.5)
Reference marketing clients	6,663	7,470	(10.8)
Supply on the deregulated market	4,543	3,906	16.3
Business in Latin America	N/A	14,381	N/A
TOTAL	11,206	25,757	(56.5)

Percentage (%)

Trends in demand for electricity ⁽¹⁾	2014	2013
Business in Spain and Portugal ⁽²⁾	(1.2)	(2.2)
Business in Latin America ⁽³⁾	N/A	2.2 – 5.9%

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

(2) Adjusted for working days and temperature, trends in demand were -0.2% in 2014 and -2.2% in 2013.

(3) Includes trends in electricity demand in Argentina, Brazil, Chile, Colombia and Peru.

Percentage (%)

Market share ⁽¹⁾	2014	2013	% change
Business in Spain and Portugal			
Generation under the ordinary regime ⁽²⁾	37.7	37.5	0.5
Distribution	43.1	43.0	0.2
Supply	36.9	37.5	(1.6)
Business in Latin America ⁽³⁾			
Generation	N/A	0.8 – 29.8	N/A
Distribution	N/A	5.7 – 30.0	N/A

(1) Source: In-house.

(2) Mainland.

(3) Includes market shares of generation and distribution in Argentina, Brazil, Chile, Colombia and Peru.

MW

Net installed capacity	31 December 2014	31 December 2013	% change
Business in Spain and Portugal	21,713	21,699	0.1
Hydroelectric	4,721	4,679	0.9
Conventional thermal	8,229	8,257	(0.3)
Nuclear	3,318	3,318	-
Combined cycle	5,445	5,445	-
Business in Latin America	N/A	15,600	N/A

TOTAL	21,713	37,299	(41.8)
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MW

	31 December 2014	31 December 2013	% change
Gross installed capacity			
Business in Spain and Portugal	22,677	22,711	(0.1)
Hydroelectric	4,759	4,755	0.1
Conventional thermal	8,798	8,838	(0.5)
Nuclear	3,443	3,443	-
Combined cycle	5,677	5,675	-
Business in Latin America	N/A	15,849	N/A
TOTAL	22,677	38,560	(41.2)

km

	31 December 2014	31 December 2013	% change
Distribution and transmission networks			
Business in Spain and Portugal	314,528	323,631	(2.8)
Business in Latin America	N/A	307,625	N/A
TOTAL	314,528	631,256	(50.2)

Percentage (%)

	2014	2013	% change
Energy losses			
Business in Spain and Portugal	10.4	9.4	10.6
Business in Latin America ⁽¹⁾	N/A	5.3 - 16.3	N/A

(1) Includes energy losses of Argentina, Brazil, Chile, Colombia and Peru.

Minutes

	2014	2013	% change
Installed Capacity Equivalent Interruption Time (ICEIT)			
Business in Spain and Portugal (average) ⁽¹⁾	48	47	2.1
Business in Latin America	N/A	590	N/A

(1) Corresponds to Spain.

GWh

	2014	2013	% change
Gas sales in the Spain and Portugal business			
Deregulated market	45,622	47,871	(4.7)
Regulated market	964	1,169	(17.5)
International market	9,493	9,463	0.3
Wholesale business sales	18,264	13,213	38.2
TOTAL ⁽¹⁾	74,343	71,716	3.7

(1) Excluding own generation consumption.

%

	2014	2013	% change
Gas quotas in the Spain and Portugal business ⁽¹⁾			
Deregulated market	16.2	15.4	5.2
TOTAL	16.2	15.4	5.2

(1) Source: In-house.

Thousands

Gas customers in the Spain and Portugal business ⁽¹⁾	2014	2013	% change
Deregulated market	1,206	1,214	(0.7)
TOTAL	1,206	1,214	(0.7)

(1) Supply points.

Financial data.

Euros

Key figures (Euros)	2014	2013	% change
EPS ⁽¹⁾	3.15	1.77	77.6
CFPS ⁽²⁾	3.51	4.26	(17.6)
BVPS ⁽³⁾	8.10	19.38	(58.2)

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

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

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

Profitability indicators	2014	2013
Return on equity ^{(1) (%)}	18.89	7.07
Return on assets ^{(2) (%)}	7.70	3.28
Economic profitability ^{(3) (%)}	5.59	4.92

(1) Profit attributed to the Parent / average equity

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

(3) EBIT / average PP&E.

Millions of Euros

	Leverage ratio	
	31 December 2014	31 December 2013
Net financial debt:	5,420	4,337
Non-current interest-bearing loans and borrowings	6,083	7,437
Current interest-bearing loans and borrowings	1	1,127
Cash and cash equivalents	(648)	(4,145)
Derivatives recognised as financial assets	(16)	(82)
Equity:	8,575	26,762
Parent	8,576	20,521
Non-controlling interests	(1)	6,241
Leverage ratio (%) ^(*)	63.21	16.21

(*) Net financial debt / Equity.

Financial indicators	2014	2013
Liquidity ratio ⁽¹⁾	0.93	1.20
Solvency ratio ⁽²⁾	0.98	1.05
Debt ratio (%) ⁽³⁾	38.73	13.95
Debt coverage ratio ⁽⁴⁾	1.75	1.35

(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.

3. Regulatory Framework.

Information on Spain's regulatory framework is set out in Note 4 to the consolidated financial statements for the year ended 31 December 2014.

There follows an update of the Spanish regulatory framework - regulations that either were approved in 2014 or had a major effect on the consolidated financial statements for that year.

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 Industry 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 on 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 (TNP), 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 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 will 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.

Lastly, Ministerial Order IET/1459/2014, approving the remuneration parameters and establishing a mechanism for allocating remuneration for new wind and photovoltaic facilities in electrical systems of Non-Mainland Territories (TNP) electricity systems, was published in the Official State Gazette on 5 August 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 Industry 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 National Energy Efficiency 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 (IDAE).

The Spanish Energy Efficiency Obligations 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, and from 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 Territories 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, 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 Industry 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.

On 26 January 2015, the Ministry of Industry, Energy and Tourism presented a new Royal Decree draft on non-mainland generation which takes into account, within the costs of these systems, the taxes arising from Law 15/2012, of 27 December, on fiscal measures for energy sustainability.

Royal Decree Law 13/2014, of 3 October, adopting urgent measures for the Gas System and ownership of nuclear power plants.

This Royal Decree Law was published on 4 October and introduces certain aspects affecting the Gas Industry and ownership of nuclear power plants.

With regard to the Gas Industry, the Royal Decree Law aims to resolve the existing complicated technical situation surrounding the Castor underground natural gas storage facility and the relinquishment of the operating concession by the owner (Escal UGS, S.L.) safeguarding the general interest. It approves the mothballing of the facilities, thereby consolidating the stoppage of storage operations approved by the Ministry of Industry, Energy and Tourism. Pursuant to a Council of Ministers' resolution, the facility will remain mothballed until the Spanish government is satisfied with technical reports on the commissioning of such facilities. Alternatively, the facility could be dismantled under secure conditions. At the same time the Royal Decree Law acknowledges the termination of the operating concession, with Enagás, S.A. entrusted with ongoing care and maintenance of the facilities, which will be responsible during hibernation for their maintenance and operability. The costs associated with these tasks will be met by the Gas System. Finally, as manager of the facilities, Enagás, S.A. must pay Escal UGS the value of its investment (Euros 1,351 million). Enagás will in turn obtain collection rights from the Spanish Gas System to ensure the payment of this amount is covered over a period of 30 years. These rights may be transferred to a third party.

Ownership of nuclear power plants will be adapted pursuant to the nuclear energy legislation. Specifically, Law 12/2011, of 27 May on civil liability for nuclear damages or damages produced by radioactive material, amended Law 25/1964, of 29 April, on Nuclear Power stating that the authorised licence holder of a nuclear power plant must be a single legal person whose sole corporate purpose is to manage nuclear power plants. It also set out a time frame for adaptation. However, pursuant to Royal Decree Law 13/2014, of 3 October, if, at the date the legislation is adopted, ownership of the authorised licence of a nuclear power plant has not been adapted to the provisions of the Nuclear Power Law, ownership will be understood to be transferred to the entity which at that date is entrusted with operating the nuclear power plant on behalf of the authorised licence holders, thereby rendering null and void the adaptation plans, if applicable, in process. The Royal Decree Law also stipulates that, regardless of the new owner's rules on passing resolutions, any decisions regarding nuclear security will be adopted by a simple majority. Also, without prejudice to the responsibility of the owner of the nuclear power plant, responsibility for damages arising from its operation, will not fall to entities which are not co-owners nor, if applicable, their representatives in the governing bodies of the owner.

Royal Decree 680/2014, of 1 August, regulating the procedure for budgeting, recognising, settling and controlling stranded costs for electricity production in non-mainland isolated electricity systems charged to the General State Budget (PGE).

This Royal Decree, published on 23 August 2014, gives effect to additional provision fifteen of Law 24/2013, of 26 December on the Electricity Industry, regulating the involvement and

procedures to be followed by the various ministerial departments and the body entrusted with settlements (the Spanish Markets and Competition Commission (CNMC)), to establish the budget allocated for this purpose, calculated in accordance with prevailing legislation, the settlement procedure of this budgetary remuneration, as well as its control.

Royal Decree 1054/2014, of 12 December, regulating the procedure for the assignment of collection rights of the electricity system deficit for 2013 and implementing the methodology for calculating the rate at which the collection rights of this deficit and, if applicable, the subsequent negative timing mismatches, will accrue interest.

This Royal Decree, published on 13 December 2014, implements the provision contained in additional provision eighteen of Electricity Industry Law 24/2013, of 26 December, establishing the procedure for the assignment of the deficit for 2013 to a maximum of Euros 3,600 million. It also regulates the methodology for determining the rate at which this 2013 deficit and the timing mismatches, if generated in subsequent years, will accrue interest. By virtue of this Royal Decree, dated 15 December 2014, ENDESA assigned the collection rights of the 2013 deficit, amounting to Euros 1,469 million at that date, to a group of financial institutions.

This Royal Decree also introduced other modifications, the most noteworthy of which include the introduction of a new voltage division for access tariffs for six periods determined in Royal Decree 1164/2001, of 26 October, establishing tariffs for accessing the electricity transmission and distribution networks, such that the 6.1 tariff, which currently covers voltages from 1 kV to those less than 36 kV, is divided into a first level for voltages greater than or equal to 1 kV and less than 30 kV and another level for voltages from 30 kV to less than 36 kV.

Ministerial Order IET/2176/2014, 20 November, implementing the methodology for calculating and establishing the final interest rate to be accrued by revenue deficit collection rights and timing mismatches in the electricity system prior to 2013.

This Ministerial Order, published on 22 November 2014, established the final rate to be accrued by deficits for 2010, 2011 and 2012, and timing mismatches from 2009 to 2012, replacing the temporary 2% rate stipulated by annual access tariffs. The review of the interest rates arising from this order amounted to Euros 30 million, of which Euros 13 million, positive, related to ENDESA. This amount was included in the supplementary settlement for 2013.

2014 electricity tariff.

On 19 December 2013, the twenty-fifth CESUR auction (Last Resort Energy Supply Contracts) was held to determine the cost of energy to be included in the calculation of the Small Consumer Voluntary Price (SCVP), in replacement of the Last Resort Tariff (LRT). After the auction, on 20 December 2013 the Spanish Markets and Competition Commission (CNMC) issued a ruling declaring that the results of the auction could not be validated in view of atypical circumstances and because the auction was held in an energy context that could not be extrapolated to the first quarter of 2014. As a result, in accordance with prevailing regulations the auction was cancelled for all effects.

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

On 28 December 2013, the Official State Gazette published Royal Decree Law 17/2013, of 27 December, determining the price of electricity in contracts subject to the SCVP in the first quarter of 2014. The Royal Decree Law set the base and peak prices for calculating the energy costs to be included in the SCVP, considering the base and peak references of the public prices of the Iberian Energy Derivatives Exchange (OMIP) for 1Q14 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 SCVP was modified by 1.4%, keeping access tariffs unchanged. The price was approved in a resolution dated 30 December 2013. Royal Decree Law 17/2013, of 27 December, also establishes that suppliers of reference would be compensated for the discrepancies between the prices stipulated in the Royal Decree Law and market price, and this would be incorporated in the SCVP calculation in the following quarter.

Ministerial Order IET/107/2014, of 31 January, was published on 1 February to review 2014 access tariffs, which have now been increased by an average of 2% from 1 February 2014. The Order contemplates an annual payment to recover the deficit envisaged for 2013, and the inclusion in 2013 access tariffs, of compensation for Non-Mainland Territories that year not financed by the General State Budget, as per Law 24/2013, of 26 December, on the Electricity Industry. The SCVP was also revised, and this brought its average increase following Royal Decree Law 17/2013 of 27 December 2013 and Ministerial Order IET/107/2014 of 31 January 2014, with respect to prices prevailing at 31 December 2013, to approximately 2%.

Royal Decree 216/2014, of 28 March, establishing the methodology for calculating the Small Consumer Voluntary Price (SCVP) 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 (SCVP) as of 1 April 2014. Key aspects of this Royal Decree are as follows:

- The cost of energy to be used in calculating the SCVP 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 SCVP 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.
- 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 SCVP 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 SCVP in the form of a fixed price for a one-year period, comprising the revisable access tariffs 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 will be equal to a 25% discount on the SCVP.

On 28 March 2014, the Official State Gazette 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.

2015 electricity tariff.

Ministerial Order IET/2444/2014, of 19 December, approved the access tariffs for 2015, leaving the current tariffs unchanged, and adding the values of the new access tariffs for the new voltage division between 1 kV and 36 kV, introduced into Spanish law by the Royal Decree 1054/2014 mentioned above.

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, 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 supplied. 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%, which in 2014 amounted to Euros 102 million.

Royal Decree 968/2014, of 21 November, implementing the methodology for establishing the distribution percentages for the amounts to be financed in respect of the subsidised electricity tariff, approved the criteria to be used for determining the distribution percentages for the subsidised electricity tariff, in implementing that set forth in Law 24/2013, of 26 December. These criteria are similar to those applied by aforementioned Ministerial Order IET/350/2014.

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 tariffs as of 1 January, introducing a general increase of around 2%, with no changes made to Last Resort Tariffs.

Natural gas tariff for 2015.

Ministerial Order IET/2445/2014, of 19 December, generally maintained the access tariffs with respect to 2014, having updated the last resort tariffs against the lower cost of raw materials, with a 3%-4% reduction in the variable component.

4. Liquidity and Capital Resources.

4.1. Financial debt.

The reconciliation of ENDESA's gross and net financial debt at 31 December 2014 is as follows:

Millions of Euros

	31 December 2014	31 December 2013	Difference	% change
Non-current interest-bearing loans and borrowings	6,083	7,437	(1,354)	(18.2)
Current interest-bearing loans and borrowings	1	1,127	(1,126)	(99.9)
SUBTOTAL	6,084	8,564	(2,480)	(29.0)
Cash and cash equivalents	(648)	(4,145)	3,497	(84.4)
Derivatives recognised as financial assets	(16)	(82)	66	(80.5)
Net financial debt	5,420	4,337	1,083	25.0

At 31 December 2014, ENDESA's net financial debt stood at Euros 5,420 million, with a Euros 1,083 million increase compared to 31 December 2013, mainly as a result of the Company's releveraging following the disposal of the Latin America business, the dividends paid in 2014 and the collection of the monetisation of the 2013 deficit.

At 31 December 2014 Endesa had accumulated collection rights of Euros 1,173 million in connection with several regulatory matters: Euros 21 million for the revenue shortfall from regulated activities before 31 December 2013, Euros 445 million for the shortfall generated in 2014 in the mainland business for temporary imbalances caused by the application of the new deficit financing mechanism established in Law 24/2013, of 26 December, and Euros 707 million related to compensation for production in non-mainland territories. Excluding the items indicated above, ENDESA's net financial debt at 31 December 2014 was Euros 4,247 million.

The structure of ENDESA's gross financial debt at 31 December 2014 was as follows:

Millions of Euros

Structure of ENDESA's gross financial debt				
	31 December 2014	31 December 2013	Difference	% change
Euro	6,084	3,641	2,443	67.1
US dollar	-	1,414	(1,414)	N/A
Chilean Peso / Unidades de Fomento	-	746	(746)	N/A
Brazilian real	-	751	(751)	N/A
Colombian peso	-	1,662	(1,662)	N/A
Peruvian nuevo sol	-	290	(290)	N/A

Argentine peso	-	60	(60)	N/A
TOTAL	6,084	8,564	(2,480)	(29.0)
Fixed rate	5,073	2,812	2,261	80.4
Floating rate	1,011	5,752	(4,741)	(82.4)
TOTAL	6,084	8,564	(2,480)	(29.0)
Average life (years)	8.9	6.0	-	-
Average cost (%) (*)	3.0	5.8	-	-

(*) Calculated on Gross Financial Debt.

Information concerning the maturities of ENDESA's gross financial debt is set out in Note 18 to the consolidated financial statements for the year ended 31 December 2014.

At 31 December 2014, 83% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 17% accrued interest at floating rates.

4.2. Liquidity.

ENDESA had liquidity of Euros 4,167 million at 31 December 2014, sufficient to meet its total debt repayments over the next 39 months. This amount includes Euros 648 million of cash and cash equivalents and Euros 3,519 million in undrawn and unconditionally available lines of credit, of which Euros 1,000 million correspond to credit lines with ENEL Finance International, N.V.

In general, cash and cash equivalents mature within three months from their acquisition date and earn interest at market rates for this type of deposit.

There are no restrictions of a material amount as to the availability of cash. Any restrictions that may affect the drawing of funds by ENDESA are set out in Notes 14 and 15.1.13 to the consolidated financial statements for the year ended 31 December 2014.

4.3. Cash Flows.

At 31 December 2014, cash and cash equivalents stood at Euros 648 million, a decrease of Euros 3,497 million compared to the figure at 31 December 2013.

At 31 December 2014 and 2013, ENDESA's net cash flows, broken down into operating, investing and financing activities, were as follows:

	Millions of Euros					
	Net Cash Flows					
	31 December 2014			31 December 2013		
	Continuing Operations	Discontinued Operations	TOTAL	Continuing Operations	Discontinued Operations	TOTAL
Net cash flows from operating activities	2,869	845	3,714	2,251	2,258	4,509
Net cash flows from investing activities	1,114	6,241	7,355	456	(2,094)	(1,638)
Net cash flows from financing activities	(13,657)	(901)	(14,558)	(1,582)	1,338	(244)

In 2014 the cash flows generated by ENDESA's operating activities were sufficient to cover the investment required to carry out business activity. The funds obtained from the disposal of the Latin America business in the amount of Euros 8,253 million also allowed an extraordinary dividend to be paid against reserves in this same amount. Lastly, the interim dividend for 2014 amounting to Euros 6,353 million was paid mainly through a long-term intercompany loan arranged with ENEL Finance International, N.V.

Net cash flows from operating activities.

Net cash flows from operating activities in 2014 amounted to Euros 3,714 million, compared to Euros 4,509 million in 2013.

Net cash flows from operating activities related to continuing operations amounted to Euros 2,869 million in 2014, compared to Euros 2,251 million in 2013. The increase was mainly due to an improvement in working capital, which offset the decrease in profit generated during the period.

Net cash from investing activities.

In 2014, net cash flows from investing activities amounted to Euros 7,355 million, and included the Euros 6,358 million received from the Disposal of the Latin America business and the Euros 1,987 million for the repayment for financing the tariff deficit, of which Euros 1,469 million relate to the assignment of the 2013 deficit carried out in December.

Net cash used in financing activities.

ENDESA allocated Euros 14,558 million to financing activities over the course of the year. Net cash flows allocated to financing activities include the Euros 16,686 million paid in dividends and a net increase in bank borrowing drawdowns in the amount of Euros 2,635 million.

4.4. Investments.

In 2014 gross investment by ENDESA totalled Euros 2,178 million (Euros 2,616 million in 2013), of which Euros 1,951 million related to capex, and investments in intangible assets and investment property, and the remaining Euros 227 million to financial investments, as follows:

Millions of Euros

2014				
	Capex, intangible assets and investment property	Financial investment	TOTAL	% change 2013
Spain and Portugal	1,285	128	1,413	28.2
Latin America ⁽¹⁾	666	99	765	(49.5)
TOTAL	1,951	227	2,178	(16.7)

(1) Relates to investments made up until 31 July 2014 (see Note 1) Investments made from 31 July 2014 until the disposal of the Latin America business amounted to Euros 323 million.

Gross investment in the Spain and Portugal business (continuing operations) in 2014 totalled Euros 1,413 million as follows:

Millions of Euros

Investment in the Spain and Portugal business			
	2014	2013	% change
Generation	307	263	16.7
Distribution and transmission	619	509	21.6
Other	2	3	(33.3)
TOTAL CAPEX	928	775	19.7
Capex and intangible assets	357	281	27.0
Investment property	-	3	N/A
current	128	43	197.7
TOTAL	1,413	1,102	28.2

Gross generation capex in 2014 relates mainly to recurring investment in plants, as well as investments in the Litoral power plant for Euros 52 million, which result in an extension of its useful life. Gross investments in distribution related to network extensions and expenditure

aimed at optimising the network for greater efficiency and quality of service. It also included investment for the widespread installation of remote management smart meters and their operating systems.

Financial investments in 2014 related mainly to the financing granted to Elcogas, S.A. in the amount of Euros 51 million and the Euros 34 million in funds contributed to Nuclenor, S.A.

5. Other Information: Dividend Policy

On 17 December 2013, ENDESA's Board of Directors approved the payment of an interim dividend out of 2013 profit of Euros 1.5 gross per share, which gave rise to a pay-out of Euros 1,588 million on 2 January 2014. The shareholders at ENDESA's General Shareholders' Meeting held on 19 May 2014 approved a total dividend out of 2013 profit for the same amount as the interim dividend already paid.

On 21 October 2014, ENDESA's shareholders held an Extraordinary General Meeting at which they agreed to pay an extraordinary dividend in cash against reserves of Euros 7.795 per share, which gave rise to a pay-out of Euros 8,253 million on 29 October 2014 (see Note 1).

On 7 October 2014, ENDESA's Board of Directors approved the payment of an interim dividend out of 2014 profit of Euros 6 gross per share, which was conditional on prior approval by the shareholders at the General Meeting of the aforementioned extraordinary dividend, for the purpose of optimising its financial structure, which gave rise to a pay-out of Euros 6,353 million on 29 October 2014. The distribution of this dividend was partially financed through a ten-year loan of Euros 4,500 million and a one-year credit facility of Euros 1,000 million, both of which were firmly committed by ENEL Finance International, N.V. (see Note 4.2).

ENDESA's Board of Directors, at its meeting held on 7 October 2014, approved a new dividend policy for the 2014-2016 period, which, in any event, is subject to and conditional upon fulfilment of the requirements established by law and the formal agreements of the Company's governing bodies, in accordance with the following:

- It will be proposed that a gross ordinary dividend of Euros 0.76 per share be paid out of profit for the year ended 31 December 2014 (in addition to the extraordinary dividend approved by the shareholders at the Extraordinary General Meeting held on 21 October 2014 and the interim dividend approved by the Board of Directors on 7 October 2014). This ordinary dividend of Euros 0.76 per share will give rise to a total pay-out of Euros 805 million, distributed in cash in two payments (January and July 2015) on the specific date determined in each case by the Company's Board of Directors.
- The dividend per ordinary share approved for payment against 2015 profit will be at least 5% higher than the dividend per ordinary share paid against 2014 profit. Equally, the dividend per share approved for payment against 2016 profit will be at least 5% higher than the dividend per ordinary share paid against 2015 profit.
- The ordinary dividends approved, where applicable, with a charge to 2014, 2015 and 2016 profit, will be distributed in two annual payments in January and July of the following year, in line with customary practices of the Company's main competitors.
- These dividends are paid exclusively in cash, and it is estimated that the cash flows generated by ENDESA's business activities will be sufficient, without needing to increase its consolidated net financial debt.

In applying the dividend policy approved by ENDESA's Board of Directors at its meeting held on 7 October 2014 mentioned above, the Board of Directors intends to pay out a dividend of 100% of the net profit attributable to the Parent recorded in the consolidated financial statements if this amount is greater than the figure obtained after applying the minimum 5% growth to the ordinary dividend established in the aforementioned dividend policy approved by the Board of Directors for the 2014-2016 period.

However, ENDESA's capacity to pay out dividends to its shareholders depends on numerous factors, including the generation of profit and the availability of unrestricted reserves, and, therefore, the Company cannot ensure that dividends will be paid out in future years or the amount of such dividends if paid. ENDESA's dividend policy will be that approved at the General Shareholders' Meeting in accordance with the proposed distribution of profit for each year, subject to the approval of ENDESA's Board of Directors.

Looking ahead to 2014, at its meeting held on 15 December 2014, ENDESA's Board of Directors agreed to pay its shareholders a gross interim dividend against 2014 profit of Euros 0.38 per share, which gave rise to a pay-out of Euros 402 million on 2 January 2015.

The proposed distribution of profit in 2014 to be presented at the General Shareholders' Meeting by ENDESA's Board of Directors will be a total gross dividend of Euros 6.76 per share (see Note 6).

6. Proposed Distribution of Profit.

The profit for 2014 of ENDESA, S.A., the Parent, amounted to Euros 11,589,400,333.03. The Company's Board of Directors will propose to the shareholders at the General Shareholders' Meeting that this amount be used to make a dividend payment of Euros 6.76 gross per share with the rest taken to retained earnings.

	Euros
To dividend ⁽¹⁾	7,157,164,310.92
To retained earnings	4,432,236,022.11
TOTAL	11,589,400,333.03

⁽¹⁾ Maximum amount to be distributed based on Euros 6.76 gross per share for all shares (1,058,752,117).



Endesa is an Enel Group Company