



ENDESA, S.A. and Subsidiaries

Consolidated Management Report for the six months ended 30 June 2015

Madrid, 24 July 2015

ENDESA, S.A. AND SUBSIDIARIES

**CONSOLIDATED MANAGEMENT REPORT FOR THE SIX MONTHS
ENDED 30 JUNE 2015**

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ENDESA, S.A. AND SUBSIDIARIES

CONSOLIDATED MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

1. Business Trends and Results in the first half of 2015

1.1. Analysis of Results

ENDESA reported net income of Euros 870 million (+17.1%) in the first half of 2015

ENDESA reported net income of Euros 870 million in the first half of 2015, an increase of 17.1% on the Euros 743 million reported in 1H14, despite the sale of the Latin America business in the last quarter of that year and higher financial expenses due to the Company's releveraging in 2014 through the extraordinary dividend paid to shareholders in October for the amount of Euros 6,353 million.

Profit after tax from Continuing Operations, which for both periods only reflects profits from the Business in Spain and Portugal, stood at Euros 872 million in the first half of 2015, 56.6% more than in the same period last year. In this regard we would note that the Consolidated Income Statement for the first half of 2014 included a decrease in revenue of Euros 162 million due to the impact of application of the draft Royal Decree received in July 2014 on revenue from generation in Non-mainland Territories ("TNP") in 2012 and 2013, which had a combined impact on the company's bottom line of Euros 114 million.

Stripping out this non-recurring effect, profit for the period attributable to the Parent would have increased by 1.5% and profit after tax from continuing operations (Business in Spain and Portugal) by 30.0%.

1.2. Comparative information

On 23 October 2014, ENDESA completed the disposal of its Latin America business and 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.

Following the disposal of assets in Latin America, all revenue and expenses corresponding to the companies which were disposed of in the first half of 2014 are now recognised as Discontinued Operations and included in "Profit after tax from discontinued operations" for the six months ended 30 June 2014.

Therefore, the Consolidated Income Statement for the six months ended 30 June 2014, presented for comparative purposes, was restated in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", reclassifying the revenue generated and expenses incurred in this period by the divested companies to "Profit after tax from discontinued operations".

Further, as a result of the application from 1 January 2015 of IFRIC 21 "Levies" on the accounting treatment of levies charged by the Public Authorities, the moment that a liability for a levy is accounted for and recognised and has been modified for determined levies whose timing and amount are certain. However, this rule does not affect the figures presented in the Annual Consolidated Financial Statements, but rather only, those published on a quarterly basis. Therefore, the figures for the six months ended 30 June 2014, presented for purposes of comparison, have been adjusted to include the same recognition criteria.

The comparative information corresponding to first half of 2014 used in this Consolidated Management Report has been adjusted to take into account the information described in the previous paragraphs. The impact of the retroactive application of IRFS 5 "*Non-current assets held for sale and discontinued operations*" and IFRIC 21 "*Levies*" on the comparative Consolidated Financial Statements, are shown in Appendix II of this Consolidated Management Report.

Lastly, in accordance with the previous paragraphs, all references in the following sections of this Consolidated Management Report for the six months ended 30 June 2014 relate to Continuing Operations, i.e the Business in Spain and Portugal.

1.3. EBITDA and EBIT

EBITDA stood at Euros 1,934 million, up 16.3% year on year, while EBIT totalled Euros 1,262 million, up 35.1%

EBITDA was Euros 1,934 million in January-June 2015, an increase of 16.3% year on year.

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

- The recognition of Euros 184 million profit for the January-June 2015 period owing to the recognition of the value of European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) as per EU Regulation 389/2013, articles 58-61. In the second quarter of 2015, ENDESA arranged forward contracts to sell these EUAs in December 2015. Therefore, the income of Euros 184 million is definitive and will not be affected by future changes in the market value of these instruments.
- In the first half of 2014, a negative impact of Euros 162 million was recognised in relation to the estimate of the impact on revenue from generation in Non-Mainland Territories ("TNP") in 2012 and 2013 based on the draft Royal Decree regulating the production of electricity and the procedure for dispatching power in Non-mainland Territories Electricity Systems received for observations in July 2014.
- The events described in the preceding two paragraphs were offset partially by the normalisation of the deregulated business gross margin in the first half of 2015, compared to the extraordinarily positive performance seen in the first half of 2014. The gross margin was reduced due to the higher cost of buying electricity caused by the increase in average wholesale market prices (Euros 48.48/MWh in the first half of 2015; +51.9%), which in turn led to higher average electricity purchase prices and a higher tax on generation.

EBIT grew by 35.1% year on year as a result of the 16.3% rise in EBITDA and the lower depreciation charges due mainly to the extension of the useful life of the nuclear and combined cycle plants from 1 October 2014 (Euros 86 million).

Revenue: Euros 10,314 million (+0.3%)

In the first half of 2015 ENDESA reported revenue of Euros 10,314 million from its Spain and Portugal business unit, in line with the figure seen in the first half of 2014 (Euros 10,280 million).

Of this amount, revenue from sales accounted for Euros 9,783 million (+1.5%), while other operating income accounted for Euros 531 million (-17.5%).

Sales

Sales of the Spain and Portugal business unit in the first six months of 2015 were as follows:

Million Euros

	January- June 2015	January-June 2014 (Adjusted)	Difference	% chg
Electricity sales	7,119	6,931	188	2.7
Sales to the deregulated market	4,157	3,995	162	4.1
Supply to customers in deregulated markets outside Spain	481	454	27	5.9
Sales at regulated prices	1,498	1,487	11	0.7
Wholesale market sales	422	426	(4)	(0,9)
Compensation for Non-mainland Territories	555	563	(8)	(1,4)
Other electricity sales	6	6	-	-
Gas sales	1,317	1,443	(126)	(8,7)
Regulated revenue from electricity distribution	1,020	1,009	11	1.1
Other sales and services rendered	327	253	74	29.2
TOTAL	9,783	9,636	147	1.5

Mainland electricity demand rose by 1.9% year on year in the first half of 2015 (+0.5% adjusted for working days and temperature).

ENDESA's mainland ordinary regime output totalled 29,471 GWh in the period, 12.5% greater than in the first half of 2014 due to the increased output at combined cycle plants (+140.8%) and coal-fired plants (+38.0%), offsetting the reduction in hydroelectric output (-14.3%). Nuclear and hydro energy accounted for 59.7% of ENDESA's mainland generation mix under the ordinary regime (68.9% in January-June 2014), compared with 54.6% for the rest of the sector (69.4% in January-June 2014).

ENDESA's output in Non-mainland Territories (TNP) was 5,862 GWh, a rise of 1.4% compared to the first half of 2014.

ENDESA obtained a market share of 39.2% in mainland generation under the ordinary regime, a 43.0% share in distribution and a 35.5% share in sales to customers in the deregulated market.

Supply to customers in the deregulated market

ENDESA had 4,820,341 customers in the deregulated market at the end of June 2015, a 6.1% increase on the number at 31 December 2014: 3,985,020 (+5.5%) in the Spanish mainland market, 654,379 (+7.7%) in the Non-mainland Territories market and 180,942 (+13.5%) in European deregulated markets other than Spain.

ENDESA sold a total of 37,922 GWh to these customers in the first half of 2015, a 1.5% decrease on the same period in 2014.

Sales in the Spanish deregulated market totalled Euros 4,157 million, which is Euros 162 million more than the year-ago figure (up +4.1%) due to the higher average sales price. Revenue from sales to deregulated European markets other than Spain totalled Euros 481 million, up Euro 27 million or 5.9% compared to the first half of 2014.

Sales at regulated prices

During the first six months of 2015, ENDESA sold 7,769 GWh to customers via its Supplier of Reference under regulated prices, which is 9.7% lower than the same period of 2014.

These sales generated revenue of Euros 1,498 million from January to June 2015, 0.7% higher year on year as the increase in average sales prices made up for the drop in physical sales.

Compensation for Non-mainland Territories systems ("TNP")

Compensation for Non-mainland generation stranded costs in the first half of 2015 amounted to Euros 555 million, a decrease of Euros 8 million (-1.4%) on the first half of 2014. This compensation was estimated based on the draft Royal Decree which regulates the production of electricity and the procedure for dispatching power in Non-mainland Territories Electricity Systems ("TNP") sent to the Council of State in April 2015.

The amount of this item in the first half of 2014 was reduced by Euros 162 million due to the adjustment of compensations for 2012 and 2013 based on the draft Royal Decree regulating the production of electricity and the procedure for dispatching power in Non-mainland Territories Electricity ("TNP") systems available in July 2014.

Stripping out the impact of the aforementioned adjustment made in the first half of 2014, compensation for Non-mainland Territories ("TNP") generation would have decreased by Euros 170 million due to higher revenue from the application of higher wholesale market prices to sales from Non-mainland Territories generation.

Gas sales

ENDESA sold 37,419 GWh to customers in the natural gas market in the first half of 2015, which represents a 0.1% increase on the first half 2014 figure.

Revenue from gas sales totalled Euros 1,317 million, down Euros 126 million (-8.7%) on the first half 2014 figure due to the drop in average prices.

Electricity distribution

ENDESA distributed 56,023 GWh in the Spanish market in the first half of 2015, a year-on-year increase of 2.9%.

Revenue from regulated distribution activities in the first half of 2015 totalled Euros 1,020 million, up Euros 11 million (+1.1%) on January-June 2014.

Other operating income.

Other operating income totalled Euros 531 million, down Euros 113 million year on year (-17.5%).

"Other operating income" includes the gain of Euros 184 million from the swap of 25 million tonnes of Emission Reduction Units (ERUs) / Certified Emission Reductions (CERs) for European Union Allowances (EUAs). This figure is the difference between the fair value of the Emission Reduction Units (ERU) / Certified Emission Reductions (CER) on the date of the operation and the European Union Allowances (EUA) at 30 June. This heading also includes the reduction of Euros 245 million in revenue from the valuation and settlement of energy derivatives, which is offset by the Euro 254 million reduction in valuation expenses and losses on the settlement of energy derivatives in the same category recognised under "Other variable procurements and services" which barely affected the contribution margin.

Operating expenses

The breakdown of operating expenses in the first half of 2015 is as follows:

Million Euros

	January- June 2015	January-June 2014 (Adjusted)	Difference	% chg
Procurement and services	7,406	7,635	(229)	(3.0)
Power purchased	2,533	2,344	189	8.1
Cost of fuel consumed	1,019	1,144	(125)	(10.9)
Transport costs	2,960	3,030	(70)	(2.3)
Other variable procurements and services	894	1,117	(223)	(20.0)
Personnel expenses	458	439	19	4.3
Other fixed operating expenses	566	611	(45)	(7.4)
Depreciation and amortisation, and impairment losses	672	729	(57)	(7.8)
TOTAL	9,102	9,414	(312)	(3.3)

Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 7,406 million in the first half of 2015, 3.0% less than in the same period in 2014.

Details of these costs are as follows:

- Power purchases and fuel consumed stood at Euros 3,552 million in January-June 2015, up 1.8% (Euros 64 million) year on year, due to the higher cost of power purchased on the market caused by rising average wholesale market prices and higher fossil-fuel output during the period. These impacts were mitigated by the reduction in the volume of power purchased on the market and the lower average price paid for fuel.
- Transmission costs were down 2.3% as a result of the reduction in power sold.
- “Other procurements and services” totalled Euros 894 million, Euros 223 million lower year on year, due mainly to the Euros 254 million reduction in expenses relating to energy derivatives, offset by a Euros 245 million decrease in revenue relating to this item, recognised under “Other operating income” and the Euros 25 million rise in CO₂ emissions costs on the back of higher fossil-fuel output.

Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 1,024 million in the first half of 2015, a reduction of Euros 26 million (-2.5%) with regard to the same period of 2014.

“Personnel expenses” were Euros 458 million in the period, compared with Euros 439 million (+4.3%) in the first half of 2014.

This heading in the first half of 2015 included a net provision of Euros 22 million to cover labour risks, whereas the first half of 2014 included a Euros 35 million net reversal of a provision in the same connection. Excluding this impact, personnel expenses would have fallen by Euros 38 million (-8.0%), due to a 4.3% reduction in the average workforce between the two periods and efforts to contain salary costs.

"Other fixed operating expenses" stood at Euros 566 million, down by Euros 45 million (-7.4%). This heading in the January-June 2014 period included a provision of Euros 29 million for potential infringement proceedings, compared to a net reversal of Euros 2 million in this connection in the first half of 2015. Excluding this effect, the reduction would have been 2.4% (Euros 14 million).

Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 672 million in the first half of 2015, Euros 57 million (-7.8%) less than the same period of 2014.

In the first half of 2015 this heading included lower depreciation charges due to the extension of the useful life of the nuclear and combined cycle plants from 1 October 2014, which resulted in a Euros 86 million decrease in depreciation and amortisation in the first six months of 2015.

Net financial loss: Euros 94 million (+40.3%)

The net financial loss for the first half of 2015 was Euros 94 million, an increase of Euros 27 million (+40.3%) year on year.

Net financial expenses totalled Euros 91 million, up Euros 25 million year-on-year, while net exchange losses were Euros 3 million, compared to a Euros 1 million loss in the first half of 2014.

Movements in long-term interest rates in both the first half of 2015 and the first half of 2014 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and for contraction suspensions for the sums of Euros 4 million and Euros 19 million (negative), respectively.

Stripping out this impact, net financial expenses would have increased by Euros 48 million (+102.1%), due to the rise in average net financial debt between the two periods as a result of ENDESA's releveraging in the fourth quarter of 2014, through an extraordinary dividend paid to shareholders for the amount of Euros 6,353 million.

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

In the first half of 2015, companies accounted for using the equity method contributed a net loss of Euros 17 million, compared to the net loss of Euros 28 million in the first half of 2014.

In the period, this heading also included a loss of Euros 40 million on the 50% interest in Nuclenor, S.A. due to recognition of a provision to cover the estimated higher costs to be incurred by this company given the extra time the Nuclear Safety Council (CSN) is taking to issue its statutory report on the request to renew the operating licence for the Santa María de Garoña nuclear power plant.

In the first half of 2014, the net loss of companies accounted for using the equity method included a provision amounting to Euros 51 million to cover the estimated cost for ENDESA to discontinue the activity of Elcogás, S.A., in which it holds a 40.99% stake.

In view of the announcement of the imminent approval of a specific plan for domestic coal, on 13 January 2015 the Elcogas, S.A. Board of Directors requested a temporary stay of the request for decommissioning 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. At the date of issue of this Consolidated Management Report, approval had yet to be given for this plan.

Gains from asset divestments

On 23 January 2015 an agreement was signed to transfer the assets of the Chira-Soria hydroelectric plant in Gran Canaria, owned by Unión Eléctrica de Canarias Generación, S.A.U., to Red Eléctrica de España, S.A.U., for the price of Euros 11 million, with a gross capital gain of Euros 7 million.

Additionally, on 3 February 2015 ENDESA formalised with Enagás Transporte, S.A.U. the sale of all the shares of Compañía Transportista de Gas Canarias, S.A. The total amount of the transaction, which includes the price of the shares and the participating loan, including interest accrued was Euros 7 million, resulting in a gross capital gain of Euros 3 million.

At 31 December 2014, the assets and ownership interest mentioned above were recognised under “Non-current assets held for sale and discontinued operations”.

2. Regulatory Framework

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

Royal Decree 198/2015, of 23 March, implementing article 112 bis of the consolidated text of the Water Act, regulating the fees applicable for using continental waters to generate electric power in EU areas

Law 15/2012, of 27 December, modified the consolidated text of the Water Act, introducing a fee for the use of continental waters to produce electric power, applicable from 1 January 2013. The text established a deduction of 22% of the economic value of the energy produced and a 90% reduction for hydroelectric plants with capacity of 50 MW or less and for pumped-storage facilities with capacity of over 50 MW.

On 25 March 2015, Royal Decree 198/2015, of 23 March, was published, regulating fees payable on hydroelectric production. This specifies that the fee is only payable in intercommunity basins, i.e. those for which the State has a legal responsibility.

With regard to the accounting criteria for facilities' installed capacity, and hence for determining whether they are entitled to the 90% reduction, it has been clarified that a facility's installed capacity is understood to be the sum of the capacity of all groups installed at the facility, although the total capacity of each facility included in the water concession may not be subdivided into smaller individual groups for purposes of calculating the fee payable. In mixed pump facilities, the tax base must be segregated, differentiating between the turbine energy from pumping (entitled to the 90% reduction) and power produced from other sources. Turbine energy from pumping will account for 70% of pump consumption.

2% of the amount collected will be considered to be revenue for the basin organisation, while the remaining 98% will go to the State Treasury. The General State Budget (“PGE”) will allocate at least an amount equivalent to the estimated amount for activities to protect and improve public land used for hydroelectric generation.

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, and fixed operations and maintenance costs, and for variable costs, including fuel and variable 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 Territories generation (TNP) 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.

On 16 April 2015, the State Council opened a case file on the proposed Royal Decree submitted by the Government for its statutory report. Revenue from this activity in the first half of 2015 was recognised in accordance with the draft Royal Decree submitted to the State Council. The draft does not contain significant differences in respect to the impacts already recognised in the Consolidated Financial Statements for 2014 based on the draft received in January 2015.

Proposed Ministerial Order regulating the capacity mechanism for environmental improvements at certain electricity production facilities.

The Ministry began processing this proposed Ministerial Order intended to regulate a mechanism which will ensure the continuation of electricity production using domestic coal, thereby guaranteeing compliance with environmental regulations and favouring the diversification of fuels to guarantee security of supply.

Under this proposal, domestic coal-fired facilities that invest in environmental improvements to reduce nitrogen oxide emissions (in compliance with Industrial Emissions Directive 2010/75/EU) are entitled to receive Euros 90,000/MW. To be eligible for this payment, the companies owning these facilities must meet a series of requirements, including the obligation to purchase domestic coal equivalent to a minimum of 6,000,000 therms PCS/MW a year through to 31 December 2018, or be included in the Transitional National Plan. Applications for this payment must be submitted by 31 December 2016, along with the request for administrative authorisation.

Law 8/2015, of 21 May, amending Law 34/1998 of 7 October 1998 on the hydrocarbon sector and establishing certain tax and non-tax measures in respect of the exploration, research and exploitation of hydrocarbons.

This Law, which was published on 22 May, amends the previous Hydrocarbons Law to bring it more into line with the current situation so as to increase competition and transparency in the hydrocarbons sector, reduce fraud, ensure greater consumer protection, reduce costs for the consumer and adapt the rules on infringements and penalties.

With respect to natural gas, the law seeks to create an organised natural market that offers consumers more competitive and transparent prices and allows the entry of new suppliers to increase competition. An operator for the organised gas market will also be appointed; any authorised natural gas installer may carry out inspections (this was previously the responsibility of

distributors); the entry of new suppliers is encouraged through the mutual recognition of licences to supply natural gas to other EU-member countries where there is an existing agreement; and certain measures have been adopted regarding minimum security inventories so as to, but without impairing the security of supply, give suppliers greater flexibility at a lower cost, enabling the Corporation for Strategic Oils Reserves (CORES) to maintain strategic natural gas inventories.

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 of 12 December.

Likewise, additional provision five of Ministerial Order IET/2444/2014, of 19 December, establishes that the remuneration set for the power distribution activity in said Ministerial Order for the year 2014 is definitive for all days of the year from the start of the first regulatory period established under Royal Decree 1048/2013, of 27 December, which stipulates the methodology to be used to calculate remuneration for the power distribution business. On 15 July 2015, the Ministry launched a public participation process for the draft Ministerial Order establishing the unitary standard costs for this activity.

We would also note that the hourly billing procedures for the Small Consumer Voluntary Price (SCVP) were published on 4 June. Under these procedures, as of 1 July, consumers with an integrated remote meter will be billed according to their real hourly consumption instead of their consumption profile. Notwithstanding the above, electricity companies have until 1 October 2015 to adapt their IT systems.

Finally, on 10 July Royal Decree Law 9/2015 outlining urgent measures to reduce the tax burden borne by taxpayers in the Spanish Personal Income Tax and other economic measures was approved. Included are measures concerning the electricity sector. Of these we would note that, following the conclusion in 2014 of the mechanism on supply security restrictions which was regulated in Royal Decree 134/2010, of 12 February, there has been a 17% reduction in the unit price paid to customers to finance capacity payments. This will rise to 40% provisionally between 1 August and 31 December 2015. The Government does not believe that this measure alters the economic and financial sustainability of the electricity system required under Law 24/2013, of 26 December.

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.

Energy efficiency

Law 18/2014, of 15 October, approving urgent measures to boost growth, competitiveness and efficiency, with regard to energy efficiency, created the Energy Efficiency National Fund with the aim of achieving energy savings. Also, Ministerial Order IET/289/2015, of 20 February, establishes the methodology used to assign savings obligations, and the subjects of these obligations, their respective shares and economic equivalent for the 2015 period of application.

ENDESA has the obligation to contribute Euros 30.2 million to the Fund in relation to obligations for 2015 and Euros 1.9 million corresponding to adjustments for 2014.

3. Liquidity and Capital Resources

3.1. Financial Management

Financial debt

The reconciliation of ENDESA's gross and net financial debt at 30 June 2015 and 31 December 2014 is as follows:

Million Euros				
	30 June 2015	31 December 2014	Difference	% chg
Non-current interest-bearing loans and borrowings	5,658	6,083	(425)	(7.0)
Current interest-bearing loans and borrowings	-	1	(1)	-
Gross financial debt	5,658	6,084	(426)	(7.0)
Cash and cash equivalents	(653)	(648)	(5)	0.8
Derivatives recognised as financial assets	(13)	(16)	3	(18.8)
Net financial debt	4,992	5,420	(428)	(7.9)

ENDESA had net financial debt of Euros 4,992 million at 30 June 2015, a reduction of Euros 428 million compared to 31 December 2014.

When assessing net debt for the first half, it must be borne in mind that on 2 January 2015 ENDESA paid shareholders an interim dividend against 2014 results of Euros 0.38 per share (gross), implying a payout of Euros 402 million.

The structure of ENDESA's gross financial debt at 30 June 2015 and 31 December 2014 was as follows:

Million Euros				
Structure of ENDESA's gross financial debt				
	30 June 2015	31 December 2014	Difference	% chg
Euro	5,658	6,084	(426)	(7.0)
TOTAL	5,658	6,084	(426)	(7.0)
Fixed rate	3,551	5,073	(1,522)	(30.0)
Floating rate	2,107	1,011	1,096	108.4
TOTAL	5,658	6,084	(426)	(7.0)
Average life (years)	7.0	8.9	-	-
Average cost (%) (*)	3.0	3.0	-	-

(*) Calculated on gross financial debt.

At 30 June 2015, 63% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 37% accrued interest at floating rates.

Main Financial Transactions

In the first half of 2015, ENDESA renewed the credit facilities arranged with various financial institutions for a total of Euros 300 million and maturing in the first half of 2018.

On 30 June 2015, ENDESA increased the limit on the intercompany credit line with ENEL Finance International, N.V., from Euros 1,000 million to Euros 2,000 million. It also reduced the applicable spread to 80 basis points and extended the maturity to 30 June 2018. The amount drawn on this facility at 30 June 2015 totalled Euros 1,000 million.

On 30 June 2015, ENDESA made a partial redemption of Euros 1,500 million on the long-term loan entered into with ENEL Finance International N.V. At 30 June 2015, the outstanding balance of this loan was Euros 3,000 million.

ENDESA has also maintained its programme of short-term debt issues on international markets, with an outstanding figure of Euros 558 million at 30 June 2015.

Liquidity

ENDESA had liquidity of Euros 3,853 million at 30 June 2015 (Euros 4,167 million at 31 December 2014), sufficient to meet its total debt repayments over the next 35 months. This amount includes Euros 653 million of cash and cash equivalents and Euros 3,200 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.

Leverage ratio

Details of the consolidated leverage ratio at 30 June 2015 and 31 December 2014 are as follows:

Million Euros	Leverage ratio	
	30 June 2015	31 December 2014
Net financial debt:	4,992	5,420
Non-current interest-bearing loans and borrowings	5,658	6,083
Current interest-bearing loans and borrowings	-	1
Cash and cash equivalents	(653)	(648)
Derivatives recognised as financial assets	(13)	(16)
Equity:	9,022	8,575
Of the Parent	9,021	8,576
Of non-controlling interests	1	(1)
Leverage ratio (%) ^(*)	55.3	63.2

^(*) Net financial debt / Equity.

Credit rating

At the date of this Consolidated Management Report, ENDESA's credit ratings are as follows:

	30 June 2015 ^(*)			31 December 2014 ^(*)		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Standard & Poor's	BBB	A-2	Positive	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Negative
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

^(*) At the respective dates of issue of the Consolidated Management Report.

3.2. Cash flows

At 30 June 2015, cash and cash equivalents stood at Euros 653 million.

ENDESA's net cash flow at 30 June 2015 and 2014, broken down into operating, investing and financing activities, were as follows:

Million Euros

	Statement of Cash Flows	
	30 June 2015	30 June 2014 ⁽¹⁾
Net cash flows from operating activities	1,194	1,966
Net cash flows from investing activities	(371)	184
Net cash flows from financing activities	(818)	(3,483)

⁽¹⁾ Consolidated net cash flow, including the Latin American business.

In the first half of 2015, cash from operating activities was sufficient to finance the investments needed to develop the business and pay the Euros 402 million interim dividend against 2014 results as net financial debt was also reduced by Euros 428 million.

3.3. Investments

In the first half of 2015 ENDESA made gross investments of Euros 494 million. Of this amount, Euros 462 million were related to capex and investment in intangible assets, and the remaining Euros 32 million to financial investments, as follows:

Million Euros

Gross investment	January-June 2015	January-June 2014	% chg
	Generation	122	100
Distribution and transmission	232	202	14.9
Other	-	1	-
TOTAL CAPEX	354	303	16.8
Intangible assets	108 ⁽¹⁾	37	191.9
Financial investments	32	82	(61.0)
TOTAL	494	422	17.1

⁽¹⁾ Excludes the swap of 25 million tonnes of Emission Reduction Units (ERUs) / Certified Emission Reductions (CERs) for European Union Allowances (EUAs).

Generation capex in the first half of 2015 largely related to plants that were already operating at 31 December 2014, including investments in the Litoral power plant for Euros 32 million, in order to adapt to European environmental legislation and extend its useful life.

Gross investments in distribution related to network extensions and expenditure aimed at optimising the network in order to improve the efficiency and quality of the service provided. These also included investment for the widespread installation of remote management smart meters and their operating systems.

Investments in intangible assets related mainly to carbon dioxide (CO₂) emissions

Capex in the first half of 2015 corresponds largely to the contribution of funds of Euros 12 million to Nuclenor, S.A.. In the first half of 2014 this included financing granted to Elcogas, S.A. of Euros 51 million, mainly to enable the company to pay its bank borrowings guaranteed by shareholders.

On 30 June 2015, ENDESA, S.A. signed an agreement with Galp Energía España, S.A. and Petrogal Sucursal en España to acquire the residential segment of the natural gas supply business in Spain. The price agreed was Euros 24 million and will be reviewed according to the value of the segment's working capital and net debt at the acquisition date. This deal is pending approval by the Spanish Markets and Competition Commission (CNMC).

3.4. Dividends

ENDESA S.A.'s Board of Directors, at its meeting on 7 October 2014, resolved to pay shareholders an interim dividend charged against 2014 earnings of a gross Euros 6 per share, for a total amount of Euros 6,353 million. This was paid on 29 October 2014. In addition, at its meeting on 15 December 2014, the Board resolved to pay shareholders an additional interim dividend charged against 2014 earnings of a gross Euros 0.38 per share, for a total amount of Euros 402 million. This was paid on 2 January 2015. Thus the total interim dividend charged against 2014 earnings was a gross Euros 6.38 per share, for a total amount of Euros 6,755 million, deducted from the Parent's equity at 31 December 2014.

At the General Meeting of Shareholders of ENDESA, S.A. held on 27 April 2015, approval was given to pay a total dividend out of 2014 profit equivalent to a gross Euros 6.76 per share, representing a total amount of Euros 7,157 million.

The difference between the total dividend approved by shareholders and the interim dividends already paid and described above, for a total payout of Euros 402 million (Euros 0.38 gross per share), was paid on 1 July 2015 and recognised as a reduction to the consolidated statement of financial position at 30 June 2015.

4. Main Risks and Uncertainties in the second half of 2015

The main risks and uncertainties ENDESA faces in the second half of 2015 arise mostly from the following:

- ENDESA's sales in the second half of the year will largely be affected by gas and electricity demand in Spain during the period, which in turn will be shaped by the Spanish economy and, mostly, GDP growth.
- Turning to regulatory matters, the various amendments made to electricity sector regulation in Spain in recent years should conclude at the end of 2015 with approval of the Royal Decree regulating electricity production and the procedure for dispatching power in the Non-mainland Territories Electricity Systems ("TNP") and the regulations governing the first regulatory period for electricity distribution, including the Ministerial Orders defining the unit costs for this activity. Revenue for the second half of 2015 from generation in Non-mainland Territories Electricity Systems and electricity distribution will depend on the final content of this regulation. Should the regulations governing generation in Non-mainland Territories Electricity Systems eventually approved differ from the draft submitted to the State Council in April 2015, ENDESA may have to amend, in its Consolidated Income Statement for the second half of 2015, the revenue recognised for this activity for the period between 1 January 2012 and 30 June 2015 presented in the



Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2015, according to an estimate based on the latest draft of the Royal Decree.

- Rainfall and wind potential levels will also affect electricity production costs and market price, in turn affecting margins in the second half of 2015.
- Furthermore, fuel and electricity prices on the wholesale market, fundamentally coal and gas, will impact business costs and sales prices. Although ENDESA has fuel price hedges in place and has finalised contracts for power sold to customers for the next few months, fluctuations in both the market price for fuel and for electricity will affect the Group's costs and revenue, and therefore, margins.
- Interest rates will have an impact on ENDESA's results in the second half of 2015 because of the portion of the Group's net debt held at floating interest rates. To mitigate this impact, ENDESA hedges interest rate risk by entering into derivatives.
- The results and fair value of investee over which ENDESA does not exercise control and which are accounted for in the Consolidated Financial Statements using the equity method may also affect earnings in the second half of 2015. Specifically, the current situation at Nuclenor, S.A. and Elcogas, S.A., described in Note 6 of the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2015 may significantly impact these companies' results.
- ENDESA is also subject to certain legal proceedings which, when resolved, may impact the Consolidated Financial Statements.

5. Information on related-party transactions

Information concerning related-party transactions is included in Note 18 of the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2015.

6. Events after the Reporting Period

Information concerning events after the reporting period is included in Note 21 of the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2015.

Appendix I: Statistical appendix

Key figures

GWh

Electricity generation output	January-June 2015	January-June 2014	% chg
Mainland	29,471	26,196	12.5
Nuclear	12,913	12,578	2.7
Coal	10,421	7,554	38.0
Hydroelectric	4,680	5,459	(14.3)
Combined cycle (CCGT)	1,457	605	140.8
Non-mainland Territories	5,862	5,782	1.4
TOTAL	35,333	31,978	10.5

GWh

Electricity sales	January-June 2015	January-June 2014	% chg
Reference supply	7,769	8,599	(9.7)
Deregulated market	37,922	38,487	(1.5)
TOTAL	45,691	47,086	(3.0)

GWh

Energy distributed ⁽¹⁾	January-June 2015	January-June 2014	% chg
Business in Spain and Portugal	56,023	54,423	2.9
TOTAL	56,023	54,423	2.9

⁽¹⁾ At power plant busbars

Thousands

Number of customers ⁽¹⁾	30 June 2015	31 December 2014	% chg
Reference supply customers	6,316	6,663	(5.2)
Supply on the deregulated market	4,820	4,543	6.1
TOTAL	11,136	11,206	(0.6)

⁽¹⁾ Supply points.

Percentage (%)

Trends in demand for electricity ⁽¹⁾	January-June 2015	January-June 2014
Business in Spain and Portugal ⁽²⁾	1.9%	1.2%

⁽¹⁾ Source: Red Eléctrica de España, S.A. (REE).

⁽²⁾ Adjusted for working days and temperature, trends in demand were +0.5% in 1H15 and +0.1% in 1H14.

Percentage (%)

Market share ⁽¹⁾	30 June 2015	31 December 2014
Generation under the Ordinary Regime ⁽²⁾	39.2	37.7
Distribution	43.0	43.1
Supply	35.5	36.9

⁽¹⁾ Source: In-house.

⁽²⁾ Mainland.

MW

Net installed capacity	30 June 2015	31 December 2014	% chg
Hydroelectric	4,721	4,721	-
Conventional thermal	7,723	8,229	(6.1)
Nuclear	3,318	3,318	-
Combined cycle	5,445	5,445	-
TOTAL	21,207	21,713	(2.3)

MW

Gross installed capacity	30 June 2015	31 December 2014	% chg
Hydroelectric	4,759	4,759	-
Conventional thermal	8,278	8,798	(5.9)
Nuclear	3,443	3,443	-
Combined cycle	5,677	5,677	-
TOTAL	22,157	22,677	(2.3)

km

Distribution and transmission networks	30 June 2015	31 December 2014	% chg
Business in Spain and Portugal	316,307	314,528	0.6
TOTAL	316,307	314,528	0.6

GWh

Gas sales	January-June 2015	January-June 2014	% chg
Deregulated market	24,851	23,624	5.2
Regulated market	551	598	(7.9)
International market	7,211	5,234	37.8
Wholesale business	4,806	7,921	(39.3)
TOTAL ⁽¹⁾	37,419	37,377	0.1

(1) Excluding own generation consumption

Thousands

Gas market customers ⁽¹⁾	30 June 2015	31 December 2014	% chg
Deregulated market	1,204	1,206	(0.2)
TOTAL	1,204	1,206	(0.2)

(1) Supply points.

Percentage (%)

Trends in demand for gas ⁽¹⁾	January-June 2015	January-June 2014	% chg
Business in Spain and Portugal	5.3		(11.7)

(1) Source: Enagás, S.A.

Percentage (%)

Gas market share ⁽¹⁾	30 June 2015	31 December 2014
Deregulated market	16.5	16.2
TOTAL	16.5	16.2

(1) Source: In-house.

Personnel

Number of Employees

Personnel	30 June 2015	30 June 2014	% chg
Final headcount	10,190	10,786 (1)	(5.5)
Average headcount	10,404	10,870 (1)	(4.3)

(1) Business in Spain and Portugal

Economic and Financial Data

Euros

Key figures (Euros)	January-June 2015	January-June 2014	% chg
Earnings per share (1)	0.82	0.70	17.1
Cash flow per share (2)	1.13	1.86	(39.3)
Book value per share (3)	8.52	8.10 (4)	5.2

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

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

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

(4) 31 December 2014.

Million Euros

	Leverage ratio	
	30 June 2015	31 December 2014
Net financial debt:	4,992	5,420
Non-current interest-bearing loans and borrowings	5,658	6,083
Current interest-bearing loans and borrowings	-	1
Cash and cash equivalents	(653)	(648)
Derivatives recognised as financial assets	(13)	(16)
Equity:	9,022	8,575
Of the Parent	9,021	8,576
Of non-controlling interests	1	(1)
Leverage ratio (%) (*)	55.3	63.2

(*) Net financial debt / Equity.

Stock Market Information

Percentage (%)

Share price trend	January-June 2015	January-June 2014
ENDESA, S.A.	3.7	21.2
Ibex-35	4.8	10.2
Eurostoxx 50	8.8	3.8
Eurostoxx Utilities	(2.6)	18.5

Stock market data	30 June 2015	31 December 2014	% chg
Market capitalisation (Million Euros)	18,179	17,522	3.7
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Nominal share value (Euros)	1.2	1.2	-
Cash (Thousand Euros)	9,466,142	10,647,350	(11.1)
Madrid stock exchange (Shares)			
Trading volume	544,712,486	616,836,741	(11.7)
Average daily trading volume	4,357,700	2,418,968	80.1
P.E.R. (1)	10.45	5.3 (2)	-

(1) Closing price / Earnings per share

(2) P.E.R. Continuing operations: 18.4.

Euros

Share price	January-June 2015	January-December 2014	% chg
Maximum	18.88	31.29	(39.7)
Minimum	15.57	13.71	13.6
Average in the period	17.42	24.82	(29.8)
Closing price	17.17	16.55	3.7

Ratings

	30 June 2015 (*)			31 December 2014 (*)		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Standard & Poor's	BBB	A-2	Positive	BBB	A-2	Stable
Moody's	Baa2	P-2	Stable	Baa2	P-2	Negative
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

(*) At the respective dates of issue of the Consolidated Management Report.

Appendix II: Restatement of Information due to the application of IFRS 5 and IFRIC 21

Consolidated Income Statement

Million Euros

	January-June 2014			Adjustments due to adoption of IFRS 5			Adjustments due to adoption of IFRIC 21			January-June 2014 (restated)		
	Business in Spain and Portugal	Business in Latin America	Total	Business in Spain and Portugal	Business in Latin America	Total	Business in Spain and Portugal	Business in Latin America	Total	Business in Spain and Portugal	Business in Latin America	Total
Revenue	10,253	4,458	14,711	27	(4,458)	(4,431)	-	-	-	10,280	-	10,280
Procurement and services	(7,608)	(2,596)	(10,204)	(27)	2,596	2,569	-	-	-	(7,635)	-	(7,635)
Contribution margin	2,645	1,862	4,507	-	(1,862)	(1,862)	-	-	-	2,645	-	2,645
Gross profit /(loss) from operations	1,694	1,217	2,911	-	(1,217)	(1,217)	(31)	-	(31)	1,663	-	1,663
Depreciation and amortisation, and impairment losses	(729)	(325)	(1,054)	-	325	325	-	-	-	(729)	-	(729)
Profit/(loss) from operations	965	892	1,857	-	(892)	(892)	(31)	-	(31)	934	-	934
Net financial profit/(loss)	(67)	(257)	(324)	-	257	257	-	-	-	(67)	-	(67)
Net profit/(loss) of companies accounted for using the equity method	(28)	13	(15)	-	(13)	(13)	-	-	-	(28)	-	(28)
Gains/(losses) from other investments	-	3	3	-	(3)	(3)	-	-	-	-	-	-
Gains/(losses) on disposal of assets	(18)	35	17	-	(35)	(35)	-	-	-	(18)	-	(18)
Profit/(loss) before tax	852	686	1,538	-	(686)	(686)	(31)	-	(31)	821	-	821
Income tax	(273)	(178)	(451)	-	178	178	9	-	9	(264)	-	(264)
Profit/(loss) after tax for the year from continuing operations	579	508	1,087	-	(508)	(508)	(22)	-	(22)	557	-	557
Profit/(loss) after tax for the year from discontinued operations	-	-	-	-	508	508	-	-	-	-	508	508
Profit/(loss) for the period	579	508	1,087	-	-	-	(22)	-	(22)	557	508	1,065
Parent company	579	186	765	-	-	-	(22)	-	(22)	557	186	743
Non-controlling interests	-	322	322	-	-	-	-	-	-	-	322	322



Endesa is an Enel Group Company