

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

**Consolidated Management Report for the six
months ended 30 June 2016**

Madrid, 26 July 2016

ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED MANAGEMENT REPORT FOR THE
SIX-MONTH PERIOD ENDED
30 JUNE 2016

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ENDESA, S.A. AND SUBSIDIARIES
CONSOLIDATED MANAGEMENT REPORT FOR THE
SIX-MONTH PERIOD ENDED
30 June 2016

1. Business Trends and Results in the first half of 2016

1.1. Consolidated results

ENDESA reported net income of Euros 796 million (-8.5%) in the first half of 2016

ENDESA reported net income of Euros 796 million in the first half of 2016, down 8.5% on the Euros 870 million reported in 1H15.

Net income for the first half of 2015 included Euros 132 million in profit deriving from the recognition of the value of European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) in accordance with the process established under EU Regulation No 389/2013, articles 58-61, the sale of which was completed in December 2015.

Stripping out this impact, ENDESA's net income in 1H16 was up 7.9% year-on-year.

The table below shows the breakdown of net income in ENDESA's businesses and its year-on-year change:

Million Euros

	Net income			
	January-June 2016	January-June 2015	% chg	% contribution to total
Generation and supply	391	449	(12.9)	49.1
Distribution	427	377	13.3	53.6
Structure and Others (1)	(22)	44	N/A	(2.7)
TOTAL	796	870	(8.5)	100.0

(1) Structure, Services and Adjustments.

1.2. Analysis of results

ENDESA's contribution margin in the first half of 2016 amounted to Euros 2,836 million, down Euros 72 million year on year (-2.5%), while EBITDA amounted to Euros 1,866 million (-3.5%). EBIT for the first six months of 2016 dropped 72 million year-on-year to reach Euros 1,190 million.

The table below shows the breakdown of EBITDA and EBIT in ENDESA's businesses and their year-on-year change:

Million Euros

	EBITDA				EBIT			
	January- June 2016	January- June 2015	% chg	% contribution to total	January- June 2016	January- June 2015	% chg	% contribution to total
Generation and supply	974	1,040	(6.3)	52.2	636	691	(8.0)	53.5
Distribution	952	875	8.8	51.0	624	562	11.0	52.4
Structure and Others (1)	(60)	19	N/A	(3.2)	(70)	9	N/A	(5.9)
TOTAL	1,866	1,934	(3.5)	100.0	1,190	1,262	(5.7)	100.0

(1) Structure, Services and Adjustments.

When looking at EBITDA for 1H16, please note that income of Euros 184 million was recognised in the first six months of the year deriving from the recognition of the value of European Union Allowances (EUAs) obtained from the swap of Emission Reduction Units (ERUs) and Certified Emission Reductions (CERs) in accordance with the process established under EU Regulation 389/2013, articles 58-61, the sale of which was completed in December 2015.

Stripping out this impact, EBITDA was up by Euros 116 million (+6.6%) in 1H16, due mainly to:

- Lower fuel consumption (-39.1%) and energy purchases (-23.6%), which offset the decrease in the average sale price, and the tax on electricity production.
- The drive to contain personnel costs, which were down Euros 26 million (-5.7%) in the first half of 2016.
- The deregulated gas business was affected by greater competitive pressure, mainly in the wholesale market.

EBIT for the first half of 2016 fell 5.7% year-on-year to Euros 1,190 million, mainly as a result of the 3.5% drop in EBITDA.

Stripping out the swap transaction discussed above, EBIT in 1H16 was up Euros 112 million (+10.4%).

Revenue: Euros 9,203 million (-10.8%)

Revenue totalled Euros 9,203 million in 1H16, compared to the Euros 10,314 million reported in the first half of 2015. Of this amount, revenue from sales accounted for Euros 8,837 million (-9.7%), while other operating income accounted for Euros 366 million (-31.1%).

The table below shows the breakdown of sales and other operating revenues of ENDESA's businesses and their year-on-year change:

	Revenue				Other operating income			
	January-June 2016	January-June 2015	% chg	% contribution to total	January-June 2016	January-June 2015	% chg	% contribution to total
Generation and supply	7,775	8,723	(10.9)	88.0	229	409	(44.0)	62.6
Distribution	1,132	1,133	(0.1)	12.8	157	145	8.3	42.9
Structure and Others (1)	(70)	(73)	(4.1)	(0.8)	(20)	(23)	(13.0)	(5.5)
TOTAL	8,837	9,783	(9.7)	100.0	366	531	(31.1)	100.0

(1) Structure, Services and Adjustments.

Sales

Sales in the first half quarter of 2016 were as follows:

	January-June 2016	January-June 2015	Difference	% chg
Electricity sales	6,437	7,119	(682)	(9.6)
Sales to the deregulated market	4,033	4,157	(124)	(3.0)
Supply to customers in deregulated markets outside Spain	469	481	(12)	(2.5)
Sales at regulated prices	1,154	1,498	(344)	(23.0)
Wholesale market sales	322	422	(100)	(23.7)
Compensation for Non-mainland Territories	451	555	(104)	(18.7)
Other electricity sales	8	6	2	33.3
Gas sales	1,072	1,317	(245)	(18.6)
Regulated revenue from electricity distribution	1,024	1,020	4	0.4
Other sales and services rendered	304	327	(23)	(7.0)
TOTAL	8,837	9,783	(946)	(9.7)

Mainland electricity demand remained constant in comparison with the first half of 2015 (+0.1% adjusted for working days and temperature).

The first six months of 2016 were characterised by rock bottom prices, mainly due to high wind and hydro output, as well as increased trading of electricity between Spain and France through the electricity interconnection and low commodity prices.

Against this backdrop, ENDESA's mainland ordinary regime output totalled 24,512 GWh in the first half of the year, down 16.8% on the first half of 2015, with decreased output at coal-fired plants (-45.4%), combined cycle plants (-32.1%), nuclear plants (-0.5%) and hydroelectric plants (+6.7%). Nuclear and hydro energy

accounted for 72.7% of ENDESA's mainland generation mix under the ordinary regime (59.7% in January-June 2015), compared with 74.8% for the rest of the sector (54.6% in January-June 2015).

ENDESA's output in Non-mainland Territories (TNP) was 5,938 GWh, a rise of 1.3% compared to the first half of 2015.

ENDESA obtained a market share of 33.1% in mainland generation under the ordinary regime, a 42.9% share in distribution and a 35.4% share in sales to customers in the deregulated market.

In the first half of 2016, gas demand was down by 1.4% year-on-year, and ENDESA secured a market share of 17.2% in sales to customers in the deregulated market.

Sales to customers in the deregulated market

ENDESA had 5,236,131 customers in the deregulated market at the end of June 2016, a 3.0% increase on the number at 31 December 2015: 4,356,283 (+3.4%) in the Spanish mainland market, 717,645 (+3.6%) in the Non-Mainland Territories market and 162,203 (-8.6%) in European deregulated markets other than Spain.

ENDESA sold a total of 38,825 GWh to these customers in the first half of 2016, a 2.4% increase on the same period in 2015.

In economic terms, sales in the Spanish deregulated market amounted to Euros 4,033 million in the first half of 2016, Euros 124 million less than the year-ago figure (-3.0%) as higher numbers of customers and the increase in physical units sold failed to offset the decrease in the average sales price to end customers.

Revenue from sales to deregulated European markets other than Spain totalled Euros 469 million, down Euros 12 million (-2.5%) on the first half of 2015 due to the drop in customer numbers and in the average sales price.

Sales at regulated prices

During the first six months of 2016, ENDESA sold 6,859 GWh to customers via its Supplier of Reference under regulated prices, which is 11.7% lower than the same period of 2015.

These sales generated revenue of Euros 1,154 million in the first half of 2016, down 23.0% year-on-year due to the drop in physical units sold and the lower average sales price.

Gas sales

ENDESA sold 39,402 GWh to customers in the natural gas market in the first half of 2016, which represents a 5.3% increase on the first half 2015 figure.

Revenue from gas sales totalled Euros 1,072 million, down Euros 245 million (-18.6%) on the first half 2015 figure due to the drop in average sale prices.

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

Compensation for Non-mainland Territories generation stranded costs in the first half of 2016 amounted to Euros 451 million, down Euros 104 million (-18.7%) on the first half of 2015, due mainly to the drop in fuel prices brought about by changes in commodity prices.

Electricity distribution

ENDESA distributed 55,959 GWh in the Spanish market in the first half of 2016, roughly on par with the first quarter of 2015 (-0.1%).

Revenue from regulated distribution activities in the first half of 2016 totalled Euros 1,024 million, up Euros 4 million (+0.4%) on January-June 2015.

Other operating revenues

Other operating income totalled Euros 366 million in 1H 2016, down Euros 165 million year on year (-31.1%).

In the first half of 2015, "Other operating revenues" included 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).

Operating expenses

Operating expenses totalled Euros 8,064 million in the first half of 2016, 11.4% less than in 1H 2015.

The breakdown of operating expenses in the first half of 2016 is as follows:

Million Euros		January- June 2016	January- June 2015	Difference	% chg
Procurement and services		6,367	7,406	(1,039)	(14.0)
Power purchased		1,935	2,533	(598)	(23.6)
Cost of fuel consumed		621	1,019	(398)	(39.1)
Transmission costs		2,950	2,960	(10)	(0.3)
Other variable procurements and services		861	894	(33)	(3.7)
Personnel expenses		432	458	(26)	(5.7)
Other fixed operating expenses		589	566	23	4.1
Depreciation and amortisation, and impairment losses		676	672	4	0.6
TOTAL		8,064	9,102	(1,038)	(11.4)

The table below shows the breakdown of operating expenses in ENDESA's businesses and their year-on-year change:

	Procurement and services				Personnel expenses				Other fixed operating expenses				Depreciation and amortisation, and impairment losses				
	January- June 2016	January- June 2015	% chg	% contribution to total	January- June 2016	January- June 2015	% chg	% contribution to total	January- June 2016	January- June 2015	% chg	% contribution to total	January- June 2016	January- June 2015	% chg	% contribution to total	
Generation and supply	6,352	7,396	(14.1)	99.8	228	229	(0.4)	52.8	451	470	(4.0)	76.6	338	349	(3.2)	50.0	
Distribution	62	72	(13.9)	1.0	131	169	(22.5)	30.3	193	209	(7.7)	32.8	328	313	4.8	48.5	
Structure and Others	(1)	(47)	(62)	(24.2)	(0.8)	73	60	21.7	16.9	(55)	(113)	(51.3)	(9.4)	10	10	-	1.5
TOTAL	6,367	7,406	(14.0)	100.0	432	458	(5.7)	100.0	589	566	4.1	100.0	676	672	0.6	100.0	

(1) Structure, Services and Adjustments.

Procurements and services (variable costs)

Procurements and services (variable costs) totalled Euros 6,367 million in the first half of 2016, 14.0% less than in the same period of 2015.

Details of these costs are as follows:

- Power purchased in the first half of 2016 dropped by Euros 598 million (-23.6%) to Euros 1,935 million, largely as a result of the reduction in the average purchase price of the electricity acquired in the market (the arithmetic mean price for the period was Euros 30.8/MWh, down 36.5%) and in the volume of gas acquired for sale to end customers.
- The cost of the fuel consumed in the first half of 2016 was Euros 621 million, down 39.1% (Euros 398 million) due to the drop in fossil-fuel output in the period and the reduction in the average purchase price.
- “Other variable procurements and services” totalled Euros 861 million, down Euros 33 million year-on-year. This change was largely due to the Euros 90 million (+82.6%) increase in expenses relating to energy derivatives, partially offset by a Euros 32 million (+22.1%) increase in revenue relating to this item recognised under “Other operating income” and the Euros 41 million drop in CO₂ emissions costs on the back of lower fossil-fuel output and the Euros 88 million decrease in taxes and other charges owing to the tax reduction and lower electrical power output in the period and due also to the correction of the amount paid on account of the nuclear tax for Catalonia in the wake of the ruling handed down by the Constitutional Court on 20 April 2016, in which the court declared the tax unconstitutional (Euros 63 million).

The breakdown of the contribution margin in ENDESA’s businesses and the year-on-year change was as follows:

Million Euros		Contribution margin			
		January-June 2016	January-June 2015	% chg	% contribution to total
Generation and supply		1,652	1,736	(4.8)	58.3
Distribution		1,227	1,206	1.7	43.3
Structure and Others	(1)	(43)	(34)	26.5	(1.6)
TOTAL		2,836	2,908	(2.5)	100.00

(1) Structure, Services and Adjustments.

Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 1,021 million in the first half of 2016, down Euros 3 million (-0.3%) with regard to the same period of 2015.

“Personnel expenses” were Euros 432 million in the period, compared with Euros 26 million (-5.7%) in the first half of 2015.

In the first half of 2016 and 2015, provisions were adjusted to account for obligations relating to ongoing workforce restructuring plans and for voluntary departure agreements, generating income of Euros 9 million and Euros 28 million, respectively. Excluding this effect, personnel expenses would have fallen by Euros 45 million (-9.3%), largely due to a 5.2% reduction in the average workforce.

“Other fixed operating expenses” in the first half of 2016 stood at Euros 589 million, up Euros 23 million (+4.1%).

In the first half of 2016, this heading includes a net provision of Euros 9 million to cover the risk of infringement proceedings, compared to a net reversal of Euros 2 million in this connection in the first half of 2015. Stripping out this effect, “Other fixed operating expenses” would have gained 2.1% largely due to the increase in repair and maintenance costs.

Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 676 million in the first half of 2016, Euros 4 million (+0.6%) more than the same period of 2015.

Net financial loss: Euros 101 million (+7.4%).

The net financial loss for the first half of 2016 was Euros 101 million, up by Euros 7 million (+7.4%) year-on-year.

In the first six months of 2016, net financial expenses totalled Euros 101 million, up Euros 10 million (+11.0%) year on year.

Movements in long-term interest rates in both the first half of 2016 and the first half of 2015 have implied a change in provisions to account for obligations relating to ongoing workforce restructuring plans and for voluntary departure agreements, for the sums of Euros 48 (negative) and Euros 4 million (positive), respectively.

Stripping out this impact, net financial expenses would have shed Euros 42 million (-44.2%) due to the reduction in the average net financial debt and in the average cost of debt.

Net income of companies accounted for using the equity method.

In the first half of 2016, companies accounted for using the equity method contributed a net loss of Euros 38 million, compared to the net loss of Euros 17 million in the first half of 2015.

As a result of the resolution adopted by the Board of Directors of ENDESA, S.A., described in Note 21 to the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2016, in relation to the binding offer for acquisition of the 60% stake held by ENEL Green Power International, B.V. in the share capital of ENEL Green Power España, S.L. (EGPE) for Euros 1,207 million, in the first half of 2016 this heading includes a loss of Euros 72 million to recognise impairment to the carrying amount of ENDESA's 40% stake in ENEL Green Power España, S.L. (EGPE) held at 30 June 2016.

In the first half of 2015, this heading 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 the company was to incur given the extra time the Nuclear Safety Council (CSN) was taking to issue its statutory report on the request to renew the operating licence for the Santa María de Garoña nuclear power plant.

2. Regulatory Framework

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

Remuneration of the distribution activity

On 28 November 2015, the Official State Gazette published Royal Decree 1073/2015, of 27 November 2015, which modifies certain provisions in the Royal Decrees on the remuneration of electricity networks (Royal Decree 1047/2013, of 27 December 2013, for transmission, and Royal Decree 1048/2013, of 27 December 2013, for distribution). Among other aspects, the Royal Decree eliminates the yearly update of unitary values based on the CPI, in accordance with Law 2/2015 of 30 March 2015 on de-indexing the economy.

On 12 December 2015, Ministerial Order IET/2660/2015, of 11 December 2015, was published, establishing the types of installations and unitary value to be used in calculating distribution remuneration. This Order sets the beginning of the first regulatory period as 1 January 2016.

On 17 June 2016, Order IET/980/2016 of 10 June was published in the Official State Gazette, setting remuneration on distribution activity for 2016 and awarding ENDESA Euros 2,014 million in remuneration for this activity. ENDESA has also been awarded quality and anti-fraud incentives of Euros 7 million and Euros 2 million, respectively.

This Order sets the base remuneration for the entire regulatory period, running from 1 January 2016 through to 31 December 2019.

Subsidised electricity tariff

Law 24/2013, of 26 December, required that the Social Bonus cost must be assumed, as a public service obligation, by parent companies or vertically-integrated groups of companies carrying out the activities of generation, distribution and supply of electricity, 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 CNMC will calculate this percentage annually, without prejudice to approval by a Ministry of Industry, Energy and Tourism Order.

The Spanish Ministry of Industry, Energy and Tourism is now analysing the draft bill of the Order to approve the final percentages for sharing out the subsidised electricity tariff for 2016, under which ENDESA, S.A. would be entitled to receive 41.10%.

Draft Royal Decree on the procedure for calculating the trading margin to be added to the Small Consumer Voluntary Price (SCVP).

The Ministry of Industry, Energy and Tourism is now preparing a draft Royal Decree to set out the procedure for calculating the trading margin on the Small Consumer Voluntary Price (SCVP), thus complying with various rulings handed down by the Supreme Court that annulled the trading margin contained in Royal Decree 216/2014 of 28 March 2016, establishing the procedure for calculating Small Consumer Voluntary Prices (SCVP) for electricity and the legal framework for arranging power.

2016 electricity tariff

On 18 December 2015, the Order IET/2735/2015 of 17 December 2015 establishing access charges for 2016 was published in the Official State Gazette.

Pursuant to this Order, tariffs remained unchanged, except for high-voltage access tariff 6.1B (30<kV≤36). However, the unit prices paid by customers to finance capacity payments were reduced by 21.5% against prices on 31 December 2015.

Natural gas tariff for 2016

Ministerial Order IET/2736/2015, of 17 December 2015, generally maintained the access tariffs with respect to 2015, having updated the Last Resort Tariffs with an average 3% reduction, resulting from lower raw material costs.

Energy efficiency

Law 18/2014, of 15 October 2014, approving urgent measures to boost growth, competitiveness and efficiency, created, in the context of energy efficiency, the Energy Efficiency National Fund with the aim of achieving energy savings.

Order IET/359/2016, of 17 March 2016, establishes ENDESA's contribution to the Energy Efficiency National Fund at Euros 29.7 million for 2016.

3. Liquidity and Capital Resources

3.1. Financial management

Financial debt

The reconciliation of ENDESA's gross and net financial debt at 30 June 2016 and 31 December 2015 is as follows:

Million Euros

	30 June 2016	31 December 2015	Difference	% chg
Non-current interest-bearing loans and borrowings	4,428	4,680	(252)	(5.4)
Current interest-bearing loans and borrowings	-	-	-	-
Gross financial debt	4,428	4,680	(252)	(5.4)
Cash and cash equivalents	(674)	(346)	(328)	94.8
Derivatives recognised as financial assets	(13)	(11)	(2)	18.2
Net financial debt	3,741	4,323	(582)	(13.5)

ENDESA had net financial debt of Euros 3,741 million at 30 June 2016, a reduction of Euros 582 million (-13.5%) compared to 31 December 2015.

The structure of ENDESA's gross financial debt at 30 June 2016 and 31 December 2015 was as follows:

Million Euros

	30 June 2016	31 December 2015	Difference	% chg
Euro	4,428	4,680	(252)	(5.4)
TOTAL	4,428	4,680	(252)	(5.4)
Fixed rate	3,537	3,537	-	-
Floating rate	891	1,143	(252)	(22.0)
TOTAL	4,428	4,680	(252)	(5.4)
Average life (years)	7.9	8.0	-	-
Average cost	2.7	2.7	-	-

At 30 June 2016, 80% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 20% accrued interest at floating rates.

At this date, 100% of the Company's gross financial debt is denominated in euros.

Main Financial Transactions

In the first half of 2016, ENDESA also maintained its programme of short-term debt issues on international markets, with an outstanding figure of Euros 107 million at 30 June 2016.

Liquidity

ENDESA had liquidity of Euros 3,762 million at 30 June 2016 (Euros 3,533 million at 31 December 2015), sufficient to meet its total debt repayments over the next 63 months.

This amount included Euros 674 million in cash and cash equivalents and Euros 3,088 million in undrawn and unconditionally available line of credit, of which Euros 1,000 million correspond to the line of credit drawn up with ENEL Finance International, N.V.

"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 2016 and 31 December 2015 are as follows:

Million Euros	Leverage ratio	
	30 June 2016	31 December 2015
Net financial debt:	3,741	4,323
Non-current interest-bearing loans and borrowings	4,428	4,680
Current interest-bearing loans and borrowings	-	-
Cash and cash equivalents	(674)	(346)
Derivatives recognised as financial assets	(13)	(11)
Equity:	9,215	9,039
Of the Parent	9,212	9,036
Of non-controlling interests	3	3
Leverage ratio (%)	40.6	47.8

(*) Net financial debt / Equity.

Credit rating

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

	30 June 2016 ^(*)			31 December 2015 ^(*)		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Standard & Poor's	BBB	A-2	Stable	BBB	A-2	Positive
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
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 2016, cash and cash equivalents amounted to Euros 674 million.

ENDESA's net cash flow at 30 June 2016 and 2015, broken down into operating, investing and financing activities, was as follows:

Million Euros	Statement of Cash Flows	
	January-June 2016	January-June 2015
Net cash flows from operating activities	1,470	1,194
Net cash flows used in investing activities	(475)	(371)
Net cash flows used in financing activities	(667)	(818)

Cash flows from operating activities in the first half of 2016 enabled ENDESA to carry out the investments needed to develop ENDESA businesses and pay out Euros 424 million in dividends, also generating an increase of Euros 328 million in cash and cash equivalents in the period.

Net cash flows from operating activities

Net cash from operating activities in the first half of 2016 amounted to Euros 1,470 million, up Euros 276 million on the Euros 1,194 million reported in the same period of 2015, despite the lower income reported in the period. The increase is due to the change in working capital caused mainly by the Euros 256 million increase in net receipts from compensation corresponding to Non-Mainland Territories Electricity Systems.

At 30 June 2016 and 31 December 2015, working capital comprised the following items:

Million Euros	30 June 2016	31 December 2015
Current assets (*)	4,279	4,633
Inventories	1,107	1,262
Trade and other receivables	2,906	2,977
Current financial assets	266	353
Non-current assets held for sale	-	41
Current liabilities (**)	5,808	5,871
Current provisions	446	638
Trade payables and other current liabilities	5,362	5,233
Liabilities directly associated with non-current assets classified as held for sale	-	-

(*) Excludes "Cash and cash equivalents" and derivatives recognised as financial assets corresponding to debt.

(**) Excludes "Financial debt" and derivatives recognised as financial liabilities corresponding to debt.

Net cash flows used in investing activities

In the first half of 2016, net cash flows applied to investments amounted to Euros 475 million and reflect, among others, the acquisition of 4.86% of the share capital of Tejo Energia – Produção e Distribuição de Energia Eléctrica, S.A. for Euros 8 million (see Section 6. Other Information, of this Consolidated Management Report), the sale of the 50% stake in ENEL Insurance N.V. in the amount of Euros 114 million (see Section 6. Other Information of this Consolidated Management Report), and net payments for investment in PPE and intangible assets in the amount of Euros 486 million (Euros 378 million in the first half of 2015) (see Section 3.3 Investments of this Consolidated Management Report).

Net cash flows used in financing activities

In the first half of 2016, net cash flows used in financing activities totalled Euros 667 million (Euros 818 million in the first half of 2015) and include the payment of Euros 424 million for the interim dividend to be charged to 2015 profit (Euros 402 million in the first half of 2015) (See Section 3.4 Dividends of this Consolidated Management Report).

3.3. Investments

In the first half of 2016 ENDESA made gross investments of Euros 484 million. Of this amount, Euros 407 million related to capex and investment in intangible assets, and the remaining Euros 77 million to financial investments, as follows:

Million Euros	January-June 2016	January-June 2015	% chg
Generation and supply	140	122	14.8
Distribution	230	232	(0.9)
TOTAL CAPEX	370	354	4.5
Generation and supply	18	10	80.0
Distribution	11	12	(8.3)
Other	8	9	(11.1)
TOTAL INTANGIBLE ASSETS	37	31	19.4
FINANCIAL INVESTMENTS	77	32	140.6
TOTAL INVESTMENTS	484	417	16.1

Gross investment in generation in the first half of 2016 largely related to plants that were already operating at 31 December 2015, including investments in the Litoral power plant for Euros 35 million, in order to adapt to European environmental law, which extended its useful life.

Gross investment in supply mainly related to the development of the activities related to added-value products and services.

Gross investment 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.

Gross investment in intangibles mainly related to software applications.

Financial investments in the first half of 2016 mainly related to guarantees provided for operation in the market in the amount of Euros 40 million.

3.4. Dividends

Approval was given at ENDESA General Shareholders' Meeting of 26 April 2016 to pay shareholders a total dividend charged against 2015 profit of a gross Euros 1.026 per share (Euros 1,086 million).

Taking into consideration the interim dividend of Euros 0.4 per share (Euros 424 million) paid on 4 January 2016, the final dividend charged to 2015 profit amounts to Euros 0.626 gross per share (Euros 663 million) and was paid on 1 July 2016.

4. Main Risks and Uncertainties in the second half of 2016

The main risks and uncertainties ENDESA faces in the second half of 2016 arise mostly from the following:

- ENDESA 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.
- Rainfall and wind potential levels will also affect electricity production costs and market price, in turn affecting margins in the latter half of 2016.
- 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 revenues, and therefore, margins.
- Interest rates will have an impact on ENDESA's results in the second half of 2016 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 2016. Specifically, the current situation at Nuclenor, S.A. and Elcogas, S.A., as described in Note 6 of the Notes to the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2016, may significantly impact these companies' results.
- ENDESA is also involved in a number of 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 2016.

6. Other Information

On 30 March 2016, ENDESA acquired from EDP - Gestão de Produção de Energia, S.A. 48,854 shares representing 4.86% of the share capital of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A., in which ENDESA previously held a stake of 38.89%. As a result of the transaction, the consideration of which amounted to Euros 8 million, ENDESA has increased its investment in the share capital of Tejo Energia - Produção e Distribuição de Energia Eléctrica, S.A to 43.75%.

On 24 May 2016, ENDESA sold its entire stake in ENEL Insurance N.V. (representing 50% of its share capital) to ENEL Investment Holding B.V. in a deal worth Euros 114 million. The transaction has had no impact on the consolidated income statement for the first half of 2016.

On 21 June 2016, ENDESA signed a purchase agreement to acquire the entire share capital of Eléctrica del Ebro, S.A. in exchange for Euros 25 million. This amount will be adjusted to reflect the net agreed financial position on the completion date. On 14 July 2016 the agreement was approved by the Spanish anti-trust authorities, and the operation is expected to go through on 28 July 2016.

There were no one-off events involving significant amounts during the first half of 2016 other than those discussed herein. Therefore, during the first half of 2016 no new significant contingent liabilities arose other than those described in the Consolidated Financial Statements for the year ended 31 December 2015. Information on lawsuits, arbitration proceedings and contingent assets is included in Note 11.2 of the Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2016.

7. 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 2016.

Appendix I: Statistical information

Key figures

GWh

Electricity generation output	January-June 2016	January-June 2015	% chg
Mainland	24,512	29,471	(16.8)
Nuclear	12,843	12,913	(0.5)
Coal	5,687	10,421	(45.4)
Hydroelectric	4,992	4,680	6.7
Combined cycle (CCGT)	990	1,457	(32.1)
Non-Mainland Territories	5,938	5,862	1.3
TOTAL	30,450	35,333	(13.8)

(1) At power plant busbars

MW

Gross installed capacity	30 June 2016	31 December 2015	% chg
Hydroelectric	4,765	4,765	-
Conventional thermal	8,094	8,278	(2.2)
Nuclear	3,443	3,443	-
Combined cycle (CCGT)	5,678	5,678	-
TOTAL	21,980	22,164	(0.8)

MW

Net installed capacity	30 June 2016	31 December 2015	% chg
Hydroelectric	4,721	4,721	-
Conventional thermal	7,585	7,723	(1.8)
Nuclear	3,318	3,318	-
Combined cycle (CCGT)	5,445	5,445	-
TOTAL	21,069	21,207	(0.7)

GWh

Electricity sales	January-June 2016	January-June 2015	% chg
Reference supply	6,859	7,769	(11.7)
Deregulated market	38,825	37,922	2.4
TOTAL	45,684	45,691	-

Thousands

Number of customers (electricity)	30 June 2016	31 December 2015	% chg
Reference supply customers	5,790	6,029	(4.0)
Supply on the deregulated market	5,236	5,083	3.0
TOTAL	11,026	11,112	(0.8)

Percentage (%)

Trends in demand for electricity	(1)	January-June 2016	January-June 2015	% chg
Business in Spain and Portugal	(2)	-	-	1.9%

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

(2) Adjusted for working days and temperature, trends in demand were +0.1% in 1H16 and +0.5% in 1H15.

Percentage (%)

Market share (electricity)	(1)	30 June 2016	31 December 2015	% chg
Generation under the ordinary regime	(2)	-	33.1	38.8
Distribution	-	-	42.9	43.5
Deregulated market	-	-	35.4	35.7

(1) Source: In-house.

(2) Mainland

GWh

Gas sales	January-June 2016	January-June 2015	% chg
Deregulated market	25,347	24,851	2.0
Regulated market	876	551	59.0
International market	10,013	7,211	38.9
Wholesale business	3,166	4,806	(34.1)
TOTAL	39,402	37,419	5.3

(1) Excluding own generation consumption

Thousands

Number of customers (gas)	30 June 2016	31 December 2015	% chg
Regulated market	274	288	(4.9)
Deregulated market	1,231	1,173	4.9
TOTAL	1,505	1,461	3.0

(1) Supply points.

Percentage (%)

Trends in demand for gas	January-June 2016	January-June 2015	% chg
Business in Spain and Portugal	(1.4)		5.3

(1) Source: Enagás, S.A.

Percentage (%)

Gas market share	30 June 2016	31 December 2015	% chg
Deregulated market	17.2		16.5

(1) Source: In-house.

GWh

Energy distributed	January-June 2016	January-June 2015	% chg
Business in Spain and Portugal	55,959	56,023	(0.1)

(1) At power plant busbars

KM

Distribution and transmission networks	30 June 2016	31 December 2015	% chg
Business in Spain and Portugal	315,954	317,675	(0.5)

Percentage (%)

Energy losses	January-June 2016	January-June 2015	% chg
Business in Spain and Portugal	10.6		11.3

Personnel

Number of employees

Workforce	30 June 2016	31 December 2015	% chg
Final headcount	9,703	10,000	(3.0)
Generation and supply	5,007	5,108	(2.0)
Distribution	3,305	3,502	(5.6)
Structure and Others (1)	1,391	1,390	0.1
Average headcount	9,860	10,243	(3.7)
Generation and supply	5,058	5,183	(2.4)
Distribution	3,409	3,595	(5.2)
Structure and Others (1)	1,393	1,465	(4.9)

(1) Structure and services.

Economic and Financial Data

Euros

Valuation parameters (Euros)		30 June 2016	30 June 2015	% chg
Net earnings per share	(1)	0.75	0.82	(8.5)
Cash flow per share	(2)	1.39	1.13	23.1
Book value per share	(3)	8.70	8.53 (4)	1.9

(1) Income attributable 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) At 31 December 2015

Million Euros

	Leverage ratio	
	30 June 2016	31 December 2015
Net financial debt:		
Non-current interest-bearing loans and borrowings	4,428	4,323
Current interest-bearing loans and borrowings	-	-
Cash and cash equivalents	(674)	(346)
Derivatives recognised as financial assets	(13)	(11)
Equity:	9,215	9,039
Of the Parent	9,212	9,036
Of non-controlling interests	3	3
Leverage ratio (%)	40.6	47.8

(*) Net financial debt / Equity.

Ratings

	30 June 2016 (*)			31 December 2015 (*)		
	Long-term	Short-term	Outlook	Long-term	Short-term	Outlook
Standard & Poor's	BBB	A-2	Stable	BBB	A-2	Positive
Moody's	Baa2	P-2	Stable	Baa2	P-2	Stable
Fitch Ratings	BBB+	F2	Stable	BBB+	F2	Stable

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

Stock Market Information

Percentage (%)

Share price trend	January-June 2016	January-December 2015
ENDESA, S.A.	(2.7)	11.9
Ibex-35	(15.1)	(7.2)
EurostoXX 50	(12.3)	4.5
EurostoXX Utilities	(3.2)	(5.1)

Stock market data		30 June 2016	31 December 2015	% chg
Market capitalisation	(Million Euros)	19,089	19,613	(2.7)
Number of shares outstanding		1,058,752,117	1,058,752,117	-
Nominal share value	(Euros)	1.2	1.2	-
Cash	(Thousand Euros)	5,896,020	16,500,861	(64.3)
Madrid stock exchange	(Shares)			
Trading volume		338,915,525	919,800,874	(63.2)
Average daily trading volume		2,668,626	3,592,972	(25.7)
P.E.R.	(1)	12.0	18.1	-

(1) Price to Earnings Ratio (P.E.R.) = Closing price / Earnings per share

Euros

Share price	January-June 2016	January-December 2015	% chg
Maximum	18.48	20.59	(10.2)
Minimum	15.74	15.57	1.1
Average in the period	17.41	18.23	(4.5)
Closing price	18.03	18.52	(2.6)