

NET INCOME AT 765 MILLION EUROS IN THE FIRST HALF OF 2014

- Compared to the first half of 2013, net income declined by 31.3%.
- EBITDA fell by 17.7% in the first six months of the year, to 2,911 million euros.
- In the first half of 2014, business in Spain and Portugal was impacted for 415 million euros as a result of the new regulatory measures, which did not affect results for the first half of 2013.
- The amended Royal Decree draft regulating Spanish extrapeninsular systems has a retroactive impact of 259 million euros on 2012 and 2013 results; out of this amount, 97 million euros were already accounted in for 2013 based on a previous draft.
- Excluding this retroactive effect, EBITDA for Spain and Portugal would have increased by 2.5%, with a positive impact on net income evolution.
- The effort to reduce costs (90 million euros) and good results posted in the free electricity and gas market helped cushion the impact of the new measures on EBITDA for Spanish and Portuguese operations, which fell by -6.4% to 1,694 million euros.
- The accounting impact of the lower exchange rates, the effects of the drought in Chile as well as of the temporary drought in Brazil and the major, positive adjustment of EBITDA in Argentina in the first half of 2013 are the main reasons behind the 29.6% decrease in EBITDA in Latin America during the period, to 1,217 million euros.
- Net financial debt stood at 4,550 million euros as of June 30th 2014, only 213 million euros more than the figure posted as of December 31st, 2013, despite the payment of an interim dividend amounting to 1,588 million euros on January 2nd, 2014, reflecting the company's sound financial position.
- Endesa still has collection rights amounting to 2,121 million euros related to several items provided for under the Spanish electricity regulation. Of this amount, 1,400 million euros were due to the financing for the revenue shortfall from regulated activities prior to December 31st, 2013; 238 million euros were due to the financing for the shortfall generated in the first half of 2014; and 483 million

euros accounted for by compensation for output in extrapeninsular electricity systems.

Madrid, July 30th, 2014. Endesa posted 765 million euros net income in the first half of 2014, a 31.3% or 349 million euros decrease compared to the figure posted in the first half of 2013.

Net income in Spain and Portugal declined by 19.9% to 579 million euros (-144 million euros). This decline is largely attributable to a change in the Royal Decree draft regulating revenues from extrapeninsular systems as well as new fiscal and regulatory measures introduced after the second quarter of 2013.

Net income from the Latin American business was 186 million euros, 205 million euros or 52.4% less than the figure posted in the first half of 2013. Such a decline was attributable to the substantial depreciation of Latin American currencies on the euro, and the extraordinary revenues posted by Argentina in 2013 that were not repeated in 2014.

Endesa's power generation in the first half of 2014 stood at 60,388 GWh, a 0.3% decline, while electricity sales stood at 78,369 GWh, a 1.2% increase compared with the corresponding period in 2013.

The change in output was due to lower production volumes in Latin America due to the sharp contraction of power generation in Chile and Colombia.

EBITDA for the first half of 2014 decreased by 17.7%, reaching 2,911 million euros.

EBITDA from Spain and Portugal as well as that from Latin America in the first half of 2014 totalled 1,694 million euros and 1,217 million euros, down 6.4% and 29.6%, respectively.

The contraction in Spain and Portugal operations is attributable to the amended Royal Decree regulating extrapeninsular systems. The new draft has been received by Endesa for comments this month and has a 259 million euro retroactive impact on 2012 and 2013 results. Endesa had already accounted in a 97 million euro impact for 2013, based on a previous draft, whereby the impact for the first half of 2014 is equivalent to 162 million euros.

Also, the regulatory and fiscal measures introduced since 2012 had a 950 million euro negative impact on Endesa EBITDA in the first half of 2014, of which 253 million euros stem from measures approved last year which did not impact the first half of 2013.

However, the solid performance of the Spanish free market, as well as the company's drive to reduce fixed costs (which, as a result of such an effort,

declined by 90 million euros, -8.1%) and lower variable costs due to low electricity prices on the wholesale market during the period, have partially offset the impact of the new regulatory measures. Net of the retroactive effect of the new draft Royal Decree on extrapeninsular generation, EBITDA posted in Spain and Portugal would have increased by 2.5%, in spite of the new measures contained in Royal Decree Law 9/2013 that came into force after closing the accounts of the first half of 2013.

The contraction in Latin American business was attributable to a series of factors:

- The substantial currency depreciation against the euro in Latin American countries where Endesa operates. Such a depreciation had an impact of 173 million euros.
- The recognition in the first half of 2013 of the exceptional impact on the distribution business in Argentina resulting from the compensation for cost variations not transferred to the tariff between 2007 and February 2013 for a total of 344 million euros, with an impact on net income of 97 million euros.
- The decline in generation in Chile mainly attributable to the halt of the Bocamina II power generation plant.
- The decrease in financial assets due to the amount to be recovered by distribution companies in Brazil for the reversal of assets at the end of their concession life following the restatement of such amount in line with the new information from the tariff review carried out by the Brazilian regulator for Ampla Energia e Serviços, S.A. in the second quarter of 2014. This reduction amounted to 110 million euros with an impact of 39 million euros on net income.

Cash flow from operating activities amounted to 1,966 million euros, compared to 1,505 million euros posted during the corresponding period of 2013 due to improved working capital.

Gross investment totalled 1,049 million euros in the first half of 2014 (907 million euros in the first half of 2013). Of this amount, 881 million euros were accounted for by capex on tangible and intangible assets, while the remaining 168 million euros concerned financial investments (813 million euros and 94 million euros, respectively, in the first half of 2013).

Moreover, companies were consolidated through acquisitions of equity stakes, for a total amount of 408 million euros split between the purchase of an additional 50% of Inversiones GasAtacama Holding, Ltd. (227 million euros) and the acquisition of 15.18% of Companhia Energética do Ceará, S.A. (181 million euros).

Financial position

Endesa posted a net financial debt of 4,550 million euros as of June 30th, 2014, an increase of only 213 million euros compared to the figure posted as of December 31st, 2013, despite the dividend payment of 1,588 million euros on January 2nd, 2014.

When assessing Endesa's debt level as of June 30th, 2014, it must be remembered that:

- Endesa still has collection rights amounting to 2,121 million euros related to several items provided for under the Spanish electricity regulation. Of this amount, 1,400 million euros were due to the financing for the revenue shortfall from regulated activities prior to December 31st, 2013; 238 million euros were due to the financing for the shortfall generated in the first half of 2014 due to the transitory imbalance arising from application of the new shortfall financing mechanism established in Law 24/2013 of December 26th; and 483 million euros in compensation for output in extrapeninsular electricity systems.
- It should also be noted that Endesa placed 397 million euros in financial instruments maturing in more than three months, hence not contributing to debt reduction.

Net of the aforementioned amounts, Endesa's net debt as of June 30th, 2014 stood at 2,032 million euros.

Endesa's consolidated net equity totalled 27,220 million euros as of June 30th, 2014, some 458 million euros higher than the figure posted at the end of 2013. This change is primarily attributable to the profit before non-controlling interests posted during the first half of 2014 and amounting to 1,087 million euros, to the acquisition of interests owned by non-controlling shareholders in Companhia Energética do Ceará for 181 million euros, which reduced the equity relating to non-controlling interests, and to the distribution of dividends to non-controlling shareholders amounting to 473 million euros.

Changes in Endesa's equity and net debt resulted in a leverage (net financial debt/equity) of 16.72% as of June 30th, 2014, compared to 16.21% recorded as of December 31st, 2013.

Spain and Portugal operations

Electricity demand in the peninsula declined by 1.2% in the first half of 2014 compared to the figure posted in the same period in 2013 (+0.1% after adjustment for working days and temperature).

Against this backdrop, electricity production from Spain and Portugal peninsular ordinary regime operations increased by 0.8% to 26,196 GWh, compared to the first half of 2013 due to higher output both at coal-fired plants (+15.1%) and combined cycle plants (+3.1%), which offset the decline in hydro and nuclear production (-10.4% and -1.3%, respectively). Power generation from extrapeninsular systems stood at 5,782 GWh, a decline of 1.5%.

In the first half of 2014, Endesa posted a market share of 34.8% in peninsular ordinary regime generation, 42.6% in distribution and 37.5% in sales to customers on the free market.

Revenues from operations in Spain and Portugal stood at 10,253 million euros in the first half of 2014, a decrease of 455 million euros on the corresponding period in 2013 (-4.2%). Of this amount, 9,613 million euros were accounted for by sales (-4.9%) and 640 million euros by other operating income (+7.2%).

A new Royal Decree draft regulating the production of electricity and the procedure for dispatching power in extrapeninsular electricity systems was received for Endesa comments in July 2014. The draft provides for a retroactive impact as of January 1st, 2012, on the remuneration of extrapeninsular generation. Compared with the previous regulation, such an impact would amount to 259 million euros on 2012 and 2013 results. Of this amount, 97 million euros were already accounted in for 2013, based on the contents of previous draft circulated in 2013, whereby EBITDA in the first half of 2014 includes a 162 million euros decrease in revenues following the restatement of the remuneration of extrapeninsular generation in 2012 and 2013.

Additionally, Endesa results for the first half of 2014 include the effects of certain regulatory measures approved by the Spanish government in 2013 that were not reflected in results for the first half of that year. These measures primarily include the reduced remuneration for extrapeninsular generation and the cost of 41.61% of the subsidised rate ("bono social") borne by Endesa. These measures had a negative impact of 253 million euros on Endesa EBITDA in the first half of 2014.

All the above impacts, that can be qualified as extraordinary and are not related to ordinary business, have been at least partially offset by the following factors:

- The company made a huge effort to achieve operational improvements, which at least partially offset the negative impact of all the measures applied since 2012, thus reducing fixed costs by 8.1% (90 million euros).
- Meanwhile, the average electricity wholesale price declined by 11.6% during the period, resulting in a lower average cost of electricity purchased by Endesa and lower taxes on power generation.

- Sales in the free market also played a pivotal role, increasing by 5.4% to reach 4,333 million euros.

Due to the above factors, EBITDA totalled 1,694 million euros in the first half of 2014, a 6.4% decrease compared to the first half of 2013, while EBIT stood at 965 million euros, a 2.1% increase. Excluding only the retroactive effects of the new draft Royal Decree, Spain and Portugal EBITDA would have grown 2.5%, also by factoring in the impact of the other new regulatory measures.

Despite the decline in EBITDA, EBIT increased due to changes in the price of emission allowances for carbon dioxide (CO₂). The provisions, aimed at adjusting the carrying amount of the allowances to their market value, amounted to 105 million euros in the first half of 2013, while in the first half of 2014, Endesa reversed a provision of 23 million euros.

Net income from Endesa's operations in Spain and Portugal was 579 million euros in the first half of 2014, down by 144 million euros year-on-year, with a 75.7% contribution to Endesa's total net income.

The figure also reflects provisions for 50 million euros in respect of the lack of economic feasibility at Elcogas, following completion of application of the measures in the Royal Decree addressing the procedure for resolving Supply Guarantee Restrictions.

Gross investment in Spain and Portugal operations stood at 415 million euros in the second quarter of 2014.

Latin America operations

The economic environment in the markets where Endesa subsidiaries operate reflected an increase in electricity demand in the first half of 2014, as follows: Brazil (+5.4%), Peru (+5.4%), Colombia (+4.3%), Argentina (+3.2%) and Chile (+2%).

Against this backdrop, distribution sales by Endesa subsidiaries (net of tolls and unbilled consumption) totalled 31,283 GWh, up 4.4% compared to the first half of 2013. Increases were posted in all countries, as follows: Brazil (+6.9%), Peru (+4.0%), Argentina (+3.9%), Chile (+2.9%) and Colombia (+2.5%).

Output across Endesa's generation activities declined by 1% to 28,410 GWh. On a country by country basis, the declines in Chile (-10.4%) and Colombia (-4%), were partly offset by the increases in Brazil (+11.6%), Peru (+7.4%) and Argentina (+4.8%).

Revenues from the Latin American business stood at 4,458 million euros in the first half of 2014, a drop of 11.9% versus the same period in 2013.

EBITDA stood at 1,217 million euros in the first half of 2014, down by 29.6% on the corresponding period in 2013. Fluctuations in exchange rates of Latin American currencies, in markets where Endesa operates, against the euro, had a negative impact on EBITDA of 173 million euros, compared to the first half of 2013.

EBIT stood at 892 million, a drop of 35% versus the same period in 2013.

Stripping out the impact of exchange rate differences on currencies, the decrease in net income in the Latin American business line is mainly attributable to lower results in the Argentina distribution business: in the first half of 2013 a 344 million euro total compensation for cost variations not transferred to the tariff between 2007 and February 2013 achieved through the Cost Monitoring Mechanism (MMC) adjustment was recognized to Edesur. Such a compensation had a 97 million euro positive impact on 2013 net income.

Additionally, a decrease in financial assets was due to the amount to be recovered by distribution companies in Brazil (110 million euros with an impact on net income of 39 million euros) and the stranded costs for energy purchase by the Brazilian distribution companies not offset by the tariff in the first half of 2014 (106 million euros with an impact on net income of 32 million euros), although these costs must be offset in the following periods.

Another important factor is the drop in electricity generation in Chile as a result of the halt of the Bocamina II power plant.

Net income from Endesa's Latin American operations in the first half of 2014 stood at 186 million euros, a 52.4% year-on-year decrease. Net income from Latin America represents 24.3% of Endesa's total net income.

Gross investment in the Latin American business totalled 634 million euros in the first half of 2014. Of this amount, 86 million euros related to financial investments and 548 million euros to capex on tangible and intangible assets. Additionally, companies were consolidated through acquisitions of equity stakes, for a total amount of 408 million euros, comprising the acquisition of an additional 50% in Inversiones GasAtacama Holding, Ltd. (227 million euros) and the acquisition of 15.18% of Companhia Energética do Ceará, S.A. (181 million euros).

New capacity development

At the El Quimbo hydro plant in Colombia (400 MW), work continued on securing contractual and social agreements with local residents enabling works to be carried out on the dam.

Moreover, on March 27th, 2014 Endesa Chile agreed to invest a total of 669 million US dollars (approximately 512 million euros) in the construction of Los Cóndores, a 150 MW hydroelectric power station. Commercial operation of the plant is scheduled for late 2018.

Corporate operations

1. Public offer for Companhia Energética do Ceará: on January 14th, 2014 Enersis made a tender offer at 49 Brazilian reais per share to the minority shareholders of Brazilian distribution company Companhia Energética do Ceará, of which it was already the majority shareholder.

After the bid acceptance period ended on February 17th, 2014, Enersis increased its holding stake by 15.18%, worth approximately 181 million euros, thus bringing its combined direct and indirect stakes in the company to 74%.

2. Acquisition of an additional 50% stake in GasAtacama: on April 22nd, 2014 Endesa Chile and Southern Cross entered into an agreement for the direct acquisition by Endesa Chile of the 50% stake held by Southern Cross in Gas Atacama, equivalent to 50% of the voting rights in the company, and also for assignment of the credit held by Pacific Energy in the Group.

The total price of the deal came to 227 million euros, 206 million euros of which related to the price paid for the acquisition itself and 21 million euros being the price paid for the transfer of the credit. As a result of this transaction, Endesa Chile took up the whole share capital in Gas Atacama.

3. Acquisition of an additional 39% stake in Generandes Perú: On April 30th, 2014, Enersis agreed to acquire Inkia's 39% stake in Generandes Perú for approximately 300 million euros. The acquisition is subject to certain conditions, including authorisation by the Peruvian authorities. The acquisition will give Enersis a 58.6% stake in Edegel.



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