



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

**Consolidated Management Report for
the nine months
ended 30 September 2015**

Madrid, 11 November 2015



ENDESA, S.A. AND SUBSIDIARIES CONSOLIDATED MANAGEMENT REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

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ENDESA, S.A. AND SUBSIDIARIES CONSOLIDATED MANAGEMENT REPORT FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2015

1. Business Trends and Results in the first nine months of 2015

1.1. Analysis of Results

ENDESA reported net income of Euros 1,206 million in the first nine months of 2015.

ENDESA reported net income of Euros 1,206 million in the first nine months of 2015, in line with the figure reported for 9M14 (Euros 1,208 million) 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 2014 in the amount of Euros 6,353 million.

Profit after tax from continuing operations, which for both periods only reflects profit from the Business in Spain and Portugal, stood at Euros 1,209 million in the first nine months of 2015, 62.7% more than in the same period last year.

In this regard we would note that the Consolidated Income Statement for the nine months ended 30 September 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 decreased by 8.8% and profit after tax from continuing operations (Business in Spain and Portugal) would have increased by 41.1%.

1.2. Comparative information

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 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 nine months ended 30 September 2014, presented for purposes of comparison, have been restated to include the same recognition criteria.

The comparative information corresponding to nine months ended 30 September 2014 used in this Consolidated Management Report has been adjusted to take into account the information described in the previous paragraph. The impact of the retrospective application of IFRIC 21 "Levies" on the comparative Consolidated Financial Statements is shown in Appendix II of this Consolidated Management Report.

Accordingly, 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 nine months of 2014 are now recognised as discontinued operations and included under "Profit after tax from discontinued operations" in the Consolidated Income Statement for the nine months ended 30 September 2014.

Therefore, in accordance with the previous paragraphs, all references in the following sections of this Consolidated Management Report to the nine months ended 30 September 2014 relate to continuing operations, i.e. the Business in Spain and Portugal.

1.3. EBITDA and EBIT

EBITDA stood at Euros 2,752 million, up 11.5% year on year, while EBIT totalled Euros 1,735 million, up 33.3%

EBITDA was Euros 2,752 million in January-September 2015, an increase of 11.5% year on year.

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

1. The recognition of Euros 184 million in profit for January-September 2015 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. ENDESA arranged forward contracts to sell these EUAs in December 2015. Therefore, the income mentioned above is definitive and will not be affected by future changes in the market value of these instruments.
2. In the first nine months of 2014, a negative impact of Euros 162 million was recognised in relation to the estimated 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.
3. The events described in the preceding two paragraphs were offset partially by the normalisation of the deregulated gross margin in the first nine months of 2015, which was affected by the higher cost of buying electricity caused by the increase in arithmetic average wholesale market prices (Euros 50/MWh in the first nine months of 2015; +26.5%), which in turn led to higher average electricity purchase prices and a higher tax on generation.

EBIT grew by 33.3% year on year as a result of the 11.5% 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 129 million).

Revenue: Euros 15,412 million

Revenue from the Business in Spain and Portugal business amounted to Euros 15,412 million in the first nine months of 2015, down Euros 130 million year on year (-0.8%).

Of this amount, revenue from sales accounted for Euros 14,654 million (-0.4%), while other operating income accounted for Euros 758 million (-9.2%).

Sales

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

Millions of Euros

	January- September 2015	January- September 2014	Difference	% chg
Electricity sales	10,841	10,682	159	1.5
Sales to the deregulated market	6,378	6,128	250	4.1
Supply to customers in deregulated markets outside Spain	744	689	55	8.0
Sales at regulated prices	2,210	2,245	(35)	(1.6)
Wholesale market sales	641	685	(44)	(6.4)
Compensation for Non-mainland Territories	859	926	(67)	(7.2)
Other electricity sales	9	9	-	-
Gas sales	1,781	2,099	(318)	(15.2)
Regulated revenue from electricity distribution	1,526	1,514	12	0.8
Other sales and services rendered	506	412	94	22.8
TOTAL	14,654	14,707	(53)	(0.4)

Mainland electricity demand rose by 2.5% year-on-year in the first nine months of 2015 (+1.1% after adjusting for working days and temperature).

ENDESA's mainland ordinary regime output totalled 46,564 GWh in the period, 9.4% greater than in the first nine months of 2014 due to the increased output at combined cycle plants (+172.4%), coal-fired plants (+13.8%) and nuclear plants (+6.4%), offsetting the reduction in hydroelectric output (-15.9%).

Nuclear and hydro energy accounted for 55.3% of ENDESA's mainland generation mix under the ordinary regime (60.4% in January-September 2014), compared with 50.4% for the rest of the sector (60.0% in January-September 2014).

ENDESA's output in Non-Mainland Territories ("TNP") was 9,326 GWh, an increase of 2.1% compared to the first nine months of 2014.

ENDESA obtained a market share of 38.9% in mainland generation under the ordinary regime, a 43.7% share in distribution and a 35.7% share in sales to customers in the deregulated market.

Supply to customers in the deregulated market

Endesa had 4,922,573 customers in the deregulated market at the end of September 2015, an increase of 8.4% on the number at 31 December 2014: 4,067,475 (+7.7%) in the Spanish mainland market, 671,035 (+10.4%) in the Non-Mainland Territories market and 184,063 (+15.4%) in European deregulated markets other than Spain.

ENDESA sold a total of 58,455 GWh to these customers in the first nine months of 2015, a year-on-year increase of 0.1%.

Sales in the Spanish deregulated market totalled Euros 6,378 million, which is Euros 250 million more than the year-ago figure (+4.1%) due to the higher average sales price and increase in the number of customers. Revenue from sales to deregulated European markets other than Spain totalled Euros 744 million, up Euro 55 million (+8.0%) compared to the first nine months of 2014.

Sales at regulated prices

During the first nine months of 2015, ENDESA sold 11,391 GWh to customers via its Supplier of Reference under regulated prices, which is down 8.9% on the same period of 2014.

These sales generated revenue of Euros 2,210 million from January to September 2015, a year-on-year decrease of 1.6% as the increase in average sales prices did not make up for the drop in physical sales.

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

Compensation for Non-Mainland Territories generation stranded costs in the first nine months of 2015 amounted to Euros 859 million, a decrease of Euros 67 million (-7.2%) on the first nine months 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") published on 1 August 2015.

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

Stripping out the impact of the aforementioned adjustment made in the first nine months of 2014, compensation for Non-mainland Territories generation stranded costs would have decreased by Euros 229 million (-21.0%) due to higher revenue from the application of higher wholesale market prices to sales from Non-mainland Territories generation generation.

Gas sales

ENDESA sold 53,274 GWh to customers in the natural gas market in the first nine months of 2015, which represents a decrease of 4.8% on the 2014 figure.

Revenue from gas sales in the market totalled Euros 1,781 million, down Euros 318 million (-15.2%) on the figure for the first nine months 2014 due to the drop in physical sales and average sales prices.

Electricity distribution

ENDESA distributed 86,599 GWh in the Spanish market in the first nine months of 2015, a year-on-year increase of 3.6%.

Revenue from regulated distribution activities in the first nine months of 2015 totalled Euros 1,526 million, up Euros 12 million (+0.8%) on January-September 2014.

Other operating income

Other operating income totalled Euros 758 million, down Euros 77 million year on year (-9.2%).

"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 ERUs / CERs and that of the EUAs. This heading also includes Euros 283 million (-39.5%) in revenue from the valuation and settlement of energy derivatives, which is partially offset by the Euro 311 million (-32.8%) in expenses in this connection recognised under "Other variable procurements and services" which barely affected the contribution margin.

Operating expenses

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

Millions of Euros

	January- September 2015	January- September 2014	Difference	% chg
Procurement and services	11,202	11,577	(375)	(3.2)
Power purchased	3,615	3,754	(139)	(3.7)
Cost of fuel consumed	1,652	1,766	(114)	(6.5)
Transmission costs	4,365	4,440	(75)	(1.7)
Other variable procurements and services	1,570	1,617	(47)	(2.9)
Personnel expenses	689	695	(6)	(0.9)
Other fixed operating expenses	845	885	(40)	(4.5)
Depreciation and amortisation, and impairment losses	1,017	1,167	(150)	(12.9)
TOTAL	13,753	14,324	(571)	(4.0)

Procurements and services (variable costs) totalled Euros 11,202 million in the first nine months of 2015, 3.2% less than in the same period of 2014 (Euros 375 million).

Details of these costs are as follows:

- Power purchased in the first nine months of 2015 dropped by Euros 139 million (-3.7%) to Euros 3,615 million as a result of the increase in the average electricity purchase price and higher average wholesale market prices (Euros 50/MWh, +26.5%), which was offset by the decrease in the volume of gas acquired.
- The cost of the fuel consumed in the first nine months of 2015 was Euros 1,652 million, down 6.5% (Euros 114 million) as the increase in output was offset by the lower average price paid for fuel.
- Transmission costs were down Euros 75 million as a result of the reduction in power sold.
- "Other variable procurements and services" totalled Euros 1,570 million, down Euros 47 million (-2.9%) year on year. This heading includes Euros 311 million in expenses relating to energy derivatives, partially offset by Euros 283 million in revenue relating to this item recognised under "Other operating income" and the Euros 179 million (+46.7%) in CO₂ emissions costs as a result of higher fossil-fuel output.

Personnel and other operating expenses (fixed costs)

Fixed costs amounted to Euros 1,534 million in the first nine months of 2015, a reduction of Euros 46 million (-2.9%) with regard to the same period of 2014.

"Personnel expenses" were Euros 689 million in the period, compared to Euros 695 million (-0.9%) in the first nine months of 2014.

This heading in the first nine months of 2015 included a net provision of Euros 26 million to cover labour claims, whereas the first nine months 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 67 million (-9.2%), due to a 4.7% reduction in the average workforce between the two periods and efforts to contain salary costs.

"Other fixed operating expenses" stood at Euros 845 million, down by Euros 40 million (-4.5%) as a result of the cost-reduction policy deployed.

Depreciation and amortisation, and impairment losses

Depreciation and amortisation charges and impairment losses totalled Euros 1,017 million in the first nine months of 2015, Euros 150 million (-12.9%) less than the same period of 2014.

In the first nine months 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 129 million decrease in depreciation and amortisation in this period.

In the first nine months of 2015 this heading also included an impairment loss of Euros 59 million related to the write-down of the value of the land ENDESA should have received following the enforcement of a Supreme Court ruling in favour of Josel, S.L.

Net financial loss: Euros 142 million

The net financial loss reported for the first nine months of 2015 was Euros 142 million, a year-on-year increase of Euros 28 million (+24.6%).

Net financial expenses totalled Euros 135 million, up Euros 24 million year-on-year, while net exchange losses were Euros 7 million, compared to a Euros 3 million loss in the first nine months of 2014.

Movements in long-term interest rates in both the first nine months of 2015 and the first nine months of 2014 meant that provisions had to be adjusted to account for obligations relating to ongoing workforce restructuring plans and contract suspensions for a positive Euros 7 million and a negative Euros 30 million, respectively, in both years.

Stripping out this impact, net financial expenses would have increased by Euros 61 million (+75.3%), 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 nine months of 2015, companies accounted for using the equity method contributed a net profit of Euros 1 million, compared to a net loss of Euros 65 million in the same period of 2014.

In the period, this heading also included, among others, the gain of Euros 17 million on the 40% interest in ENEL Green Power España, S.L.U., and the loss of Euros 40 million on the 50% interest in Nuclenor, S.A. due to the 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 (this heading also included a loss of Euros 45 million in the first nine months of 2014 in this connection).

In the first nine months 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.

On 18 September 2015, Spain's Official State Gazette ("BOE") published the Resolution of 31 July 2015, handed down by the Directorate General of Energy Policy and Mines, authorising Elcogas, S.A. to close the 320 MW integrated combined-cycle gasification thermoelectric power plant in the municipality of Puertollano (Ciudad Real), which must be carried out within a period of three months from the date of this Resolution. Elcogas, S.A. must also partially dismantle the power plant within a period of four years from the date of this Resolution. On October 30, 2015, the Ministry has approved a resolution granting a three months extraordinary and one-time extension for the closure.

Gains on 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 accrued interest 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”.

On 1 July 2015, ENDESA sold its 22% ownership interest in the share capital of Ayesa Advanced Technologies, S.A. The sale was carried out at the price of Euros 6 million, generating a gross capital gain of less than Euros 1 million.

Lastly, on 5 August 2015, ENDESA sold its entire ownership interest in Gasificadora Regional Canaria, S.A. for Euros 6 million. The sale did not generate any gains or losses for the company.

2. Other Information

Risk management is carried out in line with ENDESA's Risk Management and Control Policy approved by the Board of Directors of ENDESA, S.A. on 15 June 2015. The risk management and control mechanisms are similar to those described in Note 20 to the Consolidated Financial Statements for the year ended 31 December 2014. In this regard, the financial instruments and types of hedges are the same as those described in those Consolidated Financial Statements.

Additionally, there were no one-off events involving significant amounts during the first nine months of 2015 other than those referred to herein. Therefore, during the nine months ended 30 September 2015, no new significant contingent liabilities arose other than those described in the Consolidated Financial Statements for the year ended 31 December 2014.

3. Regulatory Framework

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

Royal Decree 198/2015, of 23 March 2015, 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 2012, 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 a capacity of 50 MW or less and for pumped-storage facilities with a 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.

Royal Decree 738/2015, of 31 July 2015, regulating the production of electricity and the procedure for dispatching power in Non-Mainland Territories Electricity Systems

On 1 August 2015, the Official State Gazette published the Royal Decree on Non-Mainland Territories ("TNP") generation, which did not differ significantly from the draft that was sent by the Ministry of Industry, Energy and Tourism to the State Council on 16 April 2015.

The Royal Decree 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, and takes into account, within the costs of these systems, the taxes arising from Law 15/2012, of 27 December 2012, on fiscal measures for energy sustainability. Certain aspects of the methodology are changed in order to improve the efficiency of the system. The Royal Decree also implements matters already contained in Law 17/2013, of 29 October 2013, to guarantee supply and increase competition in these systems.

The Royal Decree entered into effect on 1 September 2015, whereby it includes, for certain measures, a transitional period from 1 January 2012. In accordance with additional provision eleven, the full and final effectiveness thereof is subject to the European Commission not raising any objections with regard to its compatibility with Community law.

In accordance with Electricity Sector Law 24/2013, of 26 December 2013, 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.

Royal Decree 900/2015, of 9 October 2015, regulating the administrative, technical and economic requirements for the methods of supplying and generating electricity for self-consumption

On 10 October 2015, the Official State Gazette published this Royal Decree which regulates the administrative, technical and economic requirements for supplying and generating electricity for self-consumption, establishing a regulatory framework which guarantees the economic sustainability of the system and adequate distribution of system costs.

It also stipulates the tolls and charges payable for self-consumption, in accordance with Electricity Sector Law 24/2013, of 26 December 2013, which already established that self-consumption must contribute to financing the costs and services of the system in the same amount as other consumers. There are two exceptions to this rule where consumers are exempt from paying costs:

- Consumers on islands, and
- Small consumers with a contracted capacity of no more than 10 kW.

Accordingly, a record of the self-consumption facilities has been created in order for the System Operator and electricity distributors to be aware of the generation facilities in their networks and to therefore ensure the correct operation of the Electricity System under safe conditions.

Lastly, the Royal Decree gives consumers, installers and other agents a period of six months to adapt to its provisions.

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

The Ministry of Industry, Energy and Tourism 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 2015, amending Law 34/1998, of 7 October 1998, on the hydrocarbons 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 2014, 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 2014.

Likewise, additional provision five of Ministerial Order IET/2444/2014, of 19 December 2014, establishes that the remuneration set for the power distribution activity in said Ministerial Order for the year 2015 is definitive for all days of the year until the start of the first regulatory period established under Royal Decree 1048/2013, of 27 December 2013, 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 of 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. This Royal Decree Law introduced measures concerning the electricity sector. Of these we would not that, following the conclusion in 2014 of the mechanism on supply security restrictions which was regulated in Royal Decree 134/2010, of 12 February 2010, the 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 2013.

Ministerial Order IET/2182/2015, of 15 October, approving the distribution percentages for the amounts to be financed in respect of the subsidised electricity tariff for 2015

This Order establishes the distribution percentages for the amounts to be financed in relation to the subsidised electricity tariff for 2015 for groups and companies simultaneously carrying out electricity generation, distribution and marketing activities, whereby 41.26% corresponds to ENDESA, S.A.

Natural gas tariff for 2015

Ministerial Order IET/2445/2014, of 19 December 2014, 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 since January 2015. As a result of the lower cost of raw materials, the Last Resort Tariffs have dropped an average of 3% since July and will drop an average of 1.1% from October.

Energy efficiency

Law 18/2014, of 15 October 2014, 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 2015, establishes the methodology used to assign savings obligations, as well as the parties subject to 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 Energy Efficiency National Fund in relation to obligations for 2015 and Euros 1.9 million corresponding to adjustments for 2014.

4. Liquidity and Capital Resources

4.1. Financial management

Financial debt

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

Millions of Euros

	30 September 2015	31 December 2014	Difference	% chg
Non-current interest-bearing loans and	5,336	6,083	(747)	(12.3)
Current interest-bearing loans and	-	1	(1)	(100.0)
Gross financial debt	5,336	6,084	(748)	(12.3)
Cash and cash equivalents	(228)	(648)	420	(64.8)
Derivatives recognised as financial assets	(13)	(16)	3	(18.8)
Net financial debt	5,095	5,420	(325)	(6.0)

ENDESA had net financial debt of Euros 5,095 million at 30 September 2015, a reduction of Euros 325 million compared to 31 December 2014.

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

Millions of Euros

Structure of ENDESA's gross financial debt	30 September 2015	31 December 2014	Difference	% chg
Euro	5,336	6,084	(748)	(12.3)
TOTAL	5,336	6,084	(748)	(12.3)
Fixed rate	3,543	5,073	(1,530)	(30.2)
Floating rate	1,793	1,011	782	77.3
TOTAL	5,336	6,084	(748)	(12.3)
Average life (years)	7.5	8.9	-	-
Average cost (%)	2.8	3.0	-	-

At 30 September 2015, all of the Company's gross financial debt was denominated in euros. At 30 September 2015, 66% of the Company's gross financial debt accrued interest at fixed rates, while the remaining 34% accrued interest at floating rates.

Main transactions

In the first nine months 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, S.A. 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 September 2015 totalled Euros 500 million.

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

On 25 September 2015, ENDESA, S.A. drew down on the loan granted by the European Investment Bank taken out in September 2014 for Euros 300 million, with a floating interest rate and maturing at 12 years, which may be repaid after September 2019.

ENDESA has also maintained its programme of short-term debt issues on international markets, with an outstanding balance of Euros 225 million at 30 September 2015.

Lastly, when assessing net debt in the first nine months of 2015, it must be borne in mind that on 2 January 2015, ENDESA paid shareholders an interim dividend against 2014 profit of Euros 0.38 per share (gross), implying a payout of Euros 402 million, and a final dividend against 2014 profit on 1 July 2015 for the same amount.

Liquidity

ENDESA had liquidity of Euros 3,690 million at 30 September 2015 (Euros 4,167 million at 31 December 2014), sufficient to meet its total debt repayments over the next 32 months. This amount includes Euros 228 million in cash and cash equivalents and Euros 3,462 million in undrawn and unconditionally available lines of credit, of which Euros 1,500 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 September 2015 and 31 December 2014 are as follows:

Millions of Euros

	Leverage ratio	
	30 September 2015	31 December 2014
Net financial debt:	5,095	5,420
Non-current interest-bearing loans and borrowings	5,336	6,083
Current interest-bearing loans and borrowings	-	1
Cash and cash equivalents	(228)	(648)
Derivatives recognised as financial assets	(13)	(16)
Equity:	9,342	8,575
Of the Parent	9,340	8,576
Of non-controlling interests	2	(1)
Leverage ratio (%)	54.5	63.2

(*) Net financial debt / Equity.

Credit rating

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

	30 September 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 issue dates of the Consolidated Management Report.

4.2. Cash flows

At 30 September 2015, cash and cash equivalents stood at Euros 228 million.

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

Million Euros

Statement of Cash Flows	30 September 2015	30 September 2014	(1)
Net cash flows from operating activities	1,693	2,485	
Net cash flows used in investing activities	(575)	(66)	
Net cash flows used in financing activities	(1,538)	(3,606)	

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

In the first nine months of 2015, cash from operating activities was sufficient to finance the investments needed to develop the business and pay the ordinary interim and final dividend against 2014 profit in the amount of Euros 805 million.

4.3. Investments

In the first nine months of 2015 ENDESA made gross investments of Euros 761 million. Of this amount, Euros 723 million related to capex and investments in intangible assets, and the remaining Euros 38 million to financial investments, as follows:

Million Euros

	January-September 2015	January-September 2014	% chg
Generation	187	165	13.3
Distribution and transmission	367	311	18.0
Other	-	1	(100.0)
TOTAL CAPEX	554	477	16.1
Intangible assets (1)	169	68	148.5
Financial investments	38	87	(56.3)
TOTAL INVESTMENTS	761	632	20.4

(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 nine months of 2015 largely related to plants that were already operating at 31 December 2014, including investments in the Litoral power plant for Euros 47 million, in order to adapt to European environmental legislation, which extended 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

Financial investments in the first nine months of 2015 correspond mainly to the contribution of funds of Euros 12 million to Nuclenor, S.A. In the first nine months of 2014 this included financing granted to Elcogas, S.A. of Euros 51 million 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 for a sum of Euros 24 million. Once approval was obtained from the Spanish Markets and Competition Commission (CNMC), the transaction was carried out on 1 November 2015 for a total purchase price of 35 million euros.

4.4. 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 the shareholders at the General Meeting 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.

Appendix I: Statistical information

Key figures

GWh

Electricity generation output	January-September 2015	January-September 2014	% chg
Mainland	46,564	42,570	9.4
Nuclear	19,760	18,576	6.4
Coal	18,017	15,833	13.8
Hydroelectric	6,009	7,141	(15.9)
Combined cycle (CCGT)	2,778	1,020	172.4
Non-Mainland Territories	9,326	9,134	2.1
TOTAL	55,890	51,704	8.1

(1) At power plant busbars.

GWh

Electricity sales	January-September 2015	January-September 2014	% chg
Reference supply	11,391	12,499	(8.9)
Deregulated market	58,455	58,422	0.1
TOTAL	69,846	70,921	(1.5)

GWh

Energy distributed	(1) January-September 2015	January-September 2014	% chg
Business in Spain and Portugal	86,599	83,553	3.6
TOTAL	86,599	83,553	3.6

(1) At power plant busbars.

Thousands

Number of customers	(1) 30 September 2015	31 December 2014	% chg
Reference supply customers	6,199	6,663	(7.0)
Supply on the deregulated market	4,923	4,543	8.4
TOTAL	11,122	11,206	(0.7)

(1) Supply points.

Percentage (%)

Trends in demand for electricity	(1) January-September 2015	January-September 2014
Business in Spain and Portugal	(2) 2.5	(0.9)

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

(2) Adjusted for working days and temperature, trends in demand were +1.1% in January-September 2015 and +0.3% in January-September 2014.

Percentage (%)

Market share	(1) 30 September 2015	31 December 2014
Generation under the ordinary regime	(2) 38.9	37.7
Distribution	43.7	43.1
Supply	35.7	36.9

(1) Source: In-house.

(2) Mainland.

MW

Net installed capacity	30 September 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 September 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 September 2015	31 December 2014	% chg
Business in Spain and Portugal	317,069	314,528	0.8

GWh

Gas sales	January-September 2015	January-September 2014	% chg
Deregulated market	34,414	33,046	4.1
Regulated market	588	639	(8.0)
International market	11,084	6,794	63.1
Wholesale business	7,188	15,505	(53.6)
TOTAL	53,274	55,984	(4.8)

(1) Excluding own generation consumption

Thousands

Gas market customers	(1)	30 September 2015	31 December 2014	% chg
Deregulated market		1,212	1,206	0.5

(1) Supply points

Percentage (%)

Trends in demand for gas	(1)	January-September 2015	January-September 2014	% chg
Business in Spain and Portugal		5.0		(9.1)

(1) Source: Enagás, S.A.

Percentage (%)

Gas market share	(1)	30 September 2015	31 December 2014	% chg
Deregulated market		16.3		16.2

(1) Source: in-house

Personnel

Number of Employees

Personnel	30 September 2015	30 September 2014	% chg
Final headcount	10,061	10,699 ⁽¹⁾	(6.0)
Average headcount	10,308	10,822 ⁽¹⁾	(4.7)

(1) Business in Spain and Portugal

Economic and financial data

Euros

Key figures (Euros)		January- September 2015	January- September 2014	% chg
Net earnings per share	(1)	1.14	1.15	(0.2)
Cash flow per share	(2)	1.60	2.35	(31.9)
Book value per share	(3)	8.82	8.10 (4)	8.9
(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) At 31 December 2014				

Millions of Euros

		Leverage ratio	
		30 September 2015	31 December 2014
Net financial debt:		5,095	5,420
Non-current interest-bearing loans and borrowings		5,336	6,083
Current interest-bearing loans and borrowings		-	1
Cash and cash equivalents		(228)	(648)
Derivatives recognised as financial assets		(13)	(16)
Equity:		9,342	8,575
Of the Parent		9,340	8,576
Of non-controlling interests		2	(1)
Leverage ratio (%)	(*)	54.5	63.2

(*) Net financial debt / Equity.

Stock Market Information

Percentage (%)

Share price trend with respect to the previous year	January-September 2015	January-September 2014
ENDESA, S.A.	13.8	34.3
Ibex-35	(7.0)	9.2
Eurostoxx 50	(1.5)	3.8
Eurostoxx Utilities	(11.3)	18.2

Stock market data	30 September 2015	31 December 2014	% chg
Market capitalisation (Million Euros)	19,947	17,522	13.8
Number of shares outstanding	1,058,752,117	1,058,752,117	-
Nominal share value (Euros)	1.2	1.2	-
Cash (Thousand Euros)	12,908,531	10,647,350	21.2
Madrid stock exchange (Shares)			
Trading volume	733,439,458	616,836,741	18.9
Average daily trading volume	3,839,997	2,418,968	58.7
P.E.R. (1)	12.4	5.3 (2)	

(1) Closing share price / Earnings per share

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

Euros

Share price	January-September 2015	January-December 2014	% chg
Maximum	19.69	31.29	(37.1)
Minimum	15.57	13.71	13.5
Average in the period	17.82	24.82	(28.2)
Closing price	18.84	16.55	13.8

Ratings

	30 September 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 issue dates of the Consolidated Management Report.

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

Consolidated Income Statement

Million Euros

	January-September 2014			Adjustments due to adoption of IFRIC 21			January-September 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
Revenue	15,542	-	15,542	-	-	-	15,542	-	15,542
Procurement and services	(11,577)	-	(11,577)	-	-	-	(11,577)	-	(11,577)
Contribution margin	3,965	-	3,965	-	-	-	3,965	-	3,965
Gross profit/(loss) from operations	2,484	-	2,484	(15)	-	(15)	2,469	-	2,469
Depreciation and amortisation, and impairment losses	(1,167)	-	(1,167)	-	-	-	(1,167)	-	(1,167)
Profit/(loss) from operations	1,317	-	1,317	(15)	-	(15)	1,302	-	1,302
Net financial profit/(loss)	(114)	-	(114)	-	-	-	(114)	-	(114)
Net profit/(loss) of companies accounted for using the equity method	(65)	-	(65)	-	-	-	(65)	-	(65)
Gains/(losses) on disposal of assets	(20)	-	(20)	-	-	-	(20)	-	(20)
Profit/(loss) before tax	1,118	-	1,118	(15)	-	(15)	1,103	-	1,103
Income tax	(364)	-	(364)	4	-	4	(360)	-	(360)
Profit/(loss) after tax for the period from continuing operations	754	-	754	(11)	-	(11)	743	-	743
Profit/(loss) after tax for the period from discontinued operations	-	988	988	-	-	-	-	988	988
Profit/(loss) for the period	754	988	1,742	(11)	-	(11)	743	988	1,731
Parent Company	755	464	1,219	(11)	-	(11)	744	464	1,208
Non-controlling interests	(1)	524	523	-	-	-	(1)	524	523